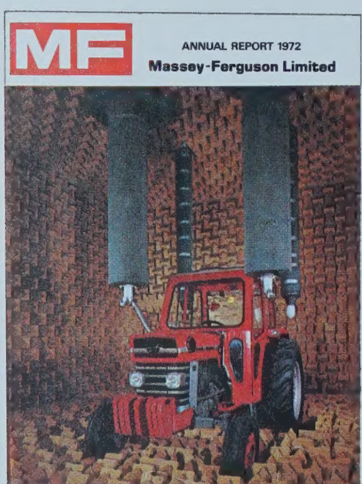
ANNUAL REPORT 1972

Massey-Ferguson Limited



As part of Massey-Ferguson's new product development process, Perkins Engines Group opened late in 1972 at Peterborough, England, what is believed to be the most advanced noise cell for engine research in Europe.

The cell is designed to accommodate not only an engine but a wide range of vehicles and other powered equipment, enabling comprehensive measurement of combined engine and vehicle noise.

Changes in product standards are being legislated in many countries to reduce engine noise levels. The new cell will help Perkins maintain its lead in the development of quieter engines to meet future requirements effectively.

To create the echo-free chamber, all interior surfaces have been insulated with some 6,000 polyurethane foam wedges. The four fixtures leading through the ceiling are silenced induction exhaust and service feeds.

More on this and other aspects of the new product development process are on pages 13-15.

Le rapport du conseil aux actionnaires en français peut être obtenu sur demande en s'adressant au secretaire de la compagnie.

Contents

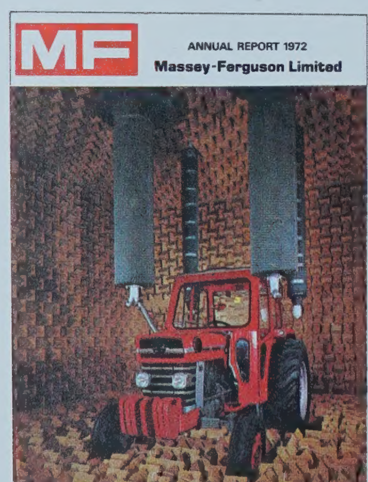
HERITAGE

Shareholders wishing a copy of Heritage, *a 48-page booklet marking the company's 125th anniversary, are invited to write to the Public Relations Department, Massey-Ferguson Limited, 200 University Ave., Toronto, Canada M5H 3E4.*
This picture booklet includes nostalgic reproductions, many in colour, from catalogues and advertisements dating back to the mid-1800's.

The Annual Meeting of Shareholders
will be held in the Ballroom,
Royal York Hotel, Toronto
at 12 o'clock noon on March 7, 1973

financial highlights

1972	1971	1970
$1,190.0	$1,029.3	$937.9
32.0	9.3	(19.7)
40.3	9.3	(19.7)
$372.9	$335.2	$291.3
205.6	195.3	180.1
444.0	403.7	394.5
$1.76	$0.51	$(1.08)
0.45	—	—
2.21	0.51	(1.08)
NIL	NIL	1.00
24.40	22.19	21.68
45,888	43,349	47,386
38,260	41,575	45,744
18,195	18,195	18,195



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TRANSFER AGENTS

National Trust Company
Toronto, Vancouver, Winnipeg

Canada Permanent Trust Company
Montreal

The Canadian Bank of Commerce
Trust Company
New York

The British Empire Trust Company,
Limited
London, England

REGISTRARS

Crown Trust Company
Toronto, Montreal, Winnipeg, Vancouver

Morgan Guaranty Trust
Company of New York
New York

Lazard Brothers & Co., Ltd.
London, England

STOCK EXCHANGES

The common shares of Massey-Ferguson Limited are listed on the Toronto, Montreal and Vancouver Stock Exchanges in Canada, on the New York Stock Exchange in the United States and on the London Stock Exchange in England. These shares also have unlisted trading privileges on the Midwest Stock Exchange in Chicago, the PBW Stock Exchange, the Boston Stock Exchange and the Pacific Coast Stock Exchange.

For Canadian capital gains tax purposes, the Valuation Day value of Massey-Ferguson Limited shares on December 22, 1971, as established by the Department of National Revenue, was $11.63 Canadian dollars.

A major styling change and the introduction in 1972 of two wide-track machines give Massey-Ferguson a line of six Ski Whiz snowmobiles with horsepower ranging from 21.5 to 40. An improved muffler and integrated air intake silencer have significantly reduced noise levels.

financial highlights

	1972	1971	1970
OPERATING SUMMARY			
(Millions of U.S. dollars)			
Net sales	**$1,190.0**	$1,029.3	$937.9
Income (loss) before extraordinary item	**32.0**	9.3	(19.7)
Net income (loss)	**40.3**	9.3	(19.7)
FINANCIAL STATUS			
(Millions of U.S. dollars)			
Net current assets	**$372.9**	$335.2	$291.3
Long-term debt	**205.6**	195.3	180.1
Capital and retained earnings	**444.0**	403.7	394.5
PER COMMON SHARE			
(U.S. dollars)			
Income (loss) before extraordinary item	**$1.76**	$0.51	$(1.08)
Extraordinary item	**0.45**	—	—
Net income (loss)	**2.21**	0.51	(1.08)
Dividends paid (Canadian dollars)	NIL	NIL	1.00
Equity	**24.40**	22.19	21.68
STATISTICAL DATA			
Number of employees as of October 31	**45,888**	43,349	47,386
Number of shareholders	**38,260**	41,575	45,744
Common shares *(thousands)*—outstanding at year-end	**18,195**	18,195	18,195

Massey-Ferguson Limited

200 UNIVERSITY AVE., TORONTO, CANADA

DIRECTORS

*Albert A. Thornbrough
President and Chief Executive Officer

*John A. McDougald
Chairman, Executive Committee

The Marquess of Abergavenny
Henry Borden, Q.C.
H. J. Carmichael
Lord Crathorne
Hon. Leslie M. Frost, C.C., Q.C.
Charles L. Gundy
Gilbert W. Humphrey
John D. Leitch
*A. Bruce Matthews
*Maxwell C. G. Meighen
John E. Mitchell
Sir Montague Prichard
John G. Staiger
*E. P. Taylor
*Colin W. Webster
The Duke of Wellington

**Member Executive Committee*

CORPORATE MANAGEMENT

A. A. Thornbrough
President and Chief Executive Officer

J. G. Staiger
Senior Vice President

J. E. Mitchell
Executive Vice President Americas

Sir Montague Prichard
Executive Vice President Engines

H. Vajk
Executive Vice President Asia/Africa/Australasia

P. J. Wright
Executive Vice President Europe

J. A. Belford
Vice President Personnel & Industrial Relations

R. D. Bibow
Vice President Farm Machinery

P. N. Breyfogle
Vice President Corporate Operations

J. D. Goodson
Vice President Industrial & Construction Machinery

R. W. Main
Vice President Administration

D. Barker
Treasurer

P. J. Dixon
Director Management Information Systems

R. W. MacLaren
Director Public Relations

W. K. Mounfield
Secretary and Director Legal Services

W. A. Murray
Director Logistics

H. A. R. Powell
Assistant to the President

Other Officers of the company: W. H. Mason *and* G. F. Ryan, *Assistant Treasurers*

OPERATIONS MANAGEMENT

AMERICAS—J. E. Mitchell, *Executive Vice President*

ARGENTINA—J. J. Campbell, *General Manager*
BRAZIL—J. A. Engelbrecht, *General Manager*
MEXICO—R. Ramsay, *General Manager*
NORTH AMERICA—J. E. Mitchell, *General Manager*

ASIA/AFRICA/AUSTRALASIA—H. Vajk, *Executive Vice President*

AUSTRALIA—H. P. Weber, *General Manager*
SOUTH AFRICA—Dr. L. B. Knoll, *General Manager*
SPECIAL OPERATIONS—L. J. Boon, *Director.*

EUROPE—P. J. Wright, *Executive Vice President*

UNITED KINGDOM—P. J. Wright, *General Manager*
FRANCE/GERMANY—R. D. Bibow, *Senior Executive Director*

ITALIAN OPERATIONS—Dr. F. Fadda, *General Manager*

ENGINES GROUP—Sir Montague Prichard, *Executive Vice President*

DIRECTOR ENGINEERING—C. J. Hind
DIRECTOR SUPPLY—T. H. R. Perkins
DIRECTOR SALES & MARKET DEVELOPMENT—V. A. Rice

Directors responsible for area co-ordination:

BRAZIL—R. M. Jennings
NORTH AMERICA—V. A. Rice (acting)
NORTHERN EUROPE—T. Leask
SOUTHERN EUROPE—P. E. Poniatowski
UNITED KINGDOM—H. Lymath
INTERNATIONAL—R. C. Clarke
LICENSEE DEVELOPMENT—F. N. Wilkinson

report of the directors to the shareholders

FOR THE YEAR ENDED OCTOBER 31, 1972

CONSOLIDATED RESULTS FOR 1972

Consolidated sales for 1972 reached the record level of U.S. $1,190.0 million, $160.7 million or 16 per cent more than 1971. The table below indicates the increased sales for each major product group from 1971 to 1972.

Before the provision for taxes was deducted, and the equity in the net income of the finance subsidiaries and Associate Companies, and an extraordinary item was added, a profit of $42.5 million was earned in 1972, compared with $9.7 million in 1971. The provision for income taxes was $15.8 million against $5.7 million in 1971. Income of the finance subsidiaries, after taxes, was $4.4 million in 1972 and $4.7 million in 1971.

Income (before an extraordinary item) was $32.0 million, compared with $9.3 million in 1971. Income per share before an extraordinary item was $1.76 against $0.51 on the same number of shares in 1971.

A sale of surplus property near Toronto resulted in a non-recurring extraordinary gain of $8.3 million or $0.45 per share.

Including this extraordinary item, net income was $40.3 million compared with $9.3 million in 1971. Net income per share was $2.21 compared with $0.51 per share in 1971.

The principal reasons for the marked improvement in sales and in profitability in 1972 were the general economic recovery in most major countries, including major increases in farm income, and the concurrent widespread growth in demand for farm machinery. These favourable developments coincided with the realization of the benefits of the management actions instituted in 1970-71 to reduce costs. The ratio of the cost of goods sold to total sales was further reduced, from 79.1 per cent in 1971 to 78.4 per cent in 1972.

Despite inflationary pressures, marketing, general and administrative expenses, as a percentage of sales, decreased from 13.9 per cent in 1971 to 13.4 per cent. Improved planning, sales control methods and distribution systems as well as higher volumes, substantially improved the ratio of inventories and receivables to sales.

Lower interest rates, coupled with the improved profitability during the year, resulted in reduced interest expenses of $7.2 million.

Following the economic policy changes announced by the United States Government on August 15, 1971, new international currency parities were agreed upon in December. These, together with the significant decline in the value of sterling following the British Government's decision to let its currency float, were the basic factors affecting currency exchange rates during 1972. Because of the location of our assets in various countries and Massey-Ferguson's normal pattern of trading, the impact on earnings of the currency realignments was, on balance, minimal.

	Sales 1972	Sales 1971	Per Cent Increase
	(Millions of U.S. Dollars)		
Farm Machinery	$ 715.0	$ 622.7	14.8%
Industrial & Construction Machinery	147.0	121.6	20.9
Engines	117.7	107.0	10.0
Recreation Products	22.7	18.4	23.4
Other Products	12.5	9.2	35.9
Parts	175.1	150.4	16.4
TOTAL	$1,190.0	$1,029.3	15.6%

President Albert A. Thornbrough hands over the keys to the 50,000th MF tractor produced in Brazil to Luiz Fernando Cirne Lima, Brazilian Minister of Agriculture. Others are J. A. Englebrecht, general manager of the Brazilian company, Antonio Rodrigues Filho, Vice-Governor of Sao Paulo, and Rubens Araujo Dias, Secretary of Agriculture for the state of Sao Paulo.

Provision for income tax world-wide was $15.8 million, compared with $5.7 million in 1971, the increase resulting primarily from the generally increased profits of individual Operations Units, offset by the net impact of tax loss carry-forwards and other tax adjustments.

Unofficial labour disruptions in Massey-Ferguson factories in the United Kingdom in September and October created supply problems domestically and in certain export markets. A strike at Canadian plants, which began on October 4 and ended November 20, had some impact on sales during the last quarter of 1972 and adversely affected supply early in 1973.

At year-end, 75 per cent of shares were held by registered shareholders with addresses in Canada and 24 per cent in the United States, compared with 65 per cent in Canada and 34 per cent in the United States in 1971.

A new heavy-duty, high-capacity forage harvester, the MF 206 was introduced in North America. It can be fitted with a pick-up for swathed crops or row-crop heads. Remote controls are available for use with today's new low-sound-level tractor cabs.

FARM MACHINERY

Sales of farm machinery (excluding parts) increased from $622.7 million to $715.0 million.

North America. In both Canada and the United States, a significant increase in farm income, paralleling the general expansion of the two economies, resulted partly from an improvement in domestic market volumes and price levels but mainly from larger exports of grains, principally to eastern Europe and Asia. This higher level of farm income helped to release the pent-up demand for tractors which had built up during the past several years. In Canada, Massey-Ferguson increased its sales to final customers and maintained or improved market penetration for those product categories in which it has been traditionally strong. In the United States there was an additional stimulus provided by the investment tax credit and increased government payments to farmers. These factors contributed to a significant increase in unit sales to final customers by the farm machinery industry in the United States. Furthermore, such sales by Massey-Ferguson increased at a yet higher rate, resulting in improved market penetration.

Europe. Demand for farm machinery in the United Kingdom in the early part of the year was below that of 1971, but during the final quarter the short-fall was recovered and Massey-Ferguson sales were above those of the previous year.

Sales in France turned sharply upward, following several years of slow growth, and achieved a record level. The major increase in demand was for tractors, especially higher horsepower models, and for balers. Combine sales, in spite of a wet, late harvest, were above those of 1971.

The trend in Germany to a reduced market for farm machinery, noted in last year's Annual Report, continued until late in 1972 when sales began to recover, especially of combines. Demand for tractors was below that of 1971 and replacement purchases accounted for a majority of sales. Massey-Ferguson's total sales of farm machinery were slightly ahead of the previous year and, given the lower industry sales, this meant increased market penetration.

The economic conditions in Italy remained uncertain during much of the year, but sales there were nevertheless greater than in 1971.

Operations Units in Other Areas. Despite uncertain economic conditions in Argentina and a continuing high rate of inflation, significant progress was made in 1972 by expanding sales of locally manufactured tractors through an improved distribution system. A major improvement in Australian farm income and terms of trade, resulting largely from higher prices for wool and wheat and more grain exports, marked the end of the depressed circumstances which had characterized Australian agriculture during the past few years. Despite severe drought in some areas, there was a significant recovery in demand for farm machinery, of which Massey-Ferguson continued to supply a significant proportion. Exports from Australia of Massey-Ferguson sugar cane harvesting equipment reached record levels.

Sales of farm machinery in Brazil, where Massey-Ferguson manufactures tractors and combines as well as a wide range of implements, again increased sharply. With a high rate of growth in the gross national product and with governmental policies encouraging agricultural development, Brazil has now become the second largest market in the world for Massey-Ferguson farm machinery.

In South Africa, excellent climatic conditions meant record crops and higher farm income. The consequential impact on the farm machinery market was favourable and Massey-Ferguson sales were at satisfactory levels, despite import and price controls, currency realignment and problems of tractor supply from the United Kingdom.

The current line of implements and harvesting equipment sold by our South African subsidiary was complemented by the acquisition in

Several new models of garden and recreation products were added in 1972 to broaden the company's line. Massey-Ferguson now offers two walk-behind mowers and two riding mowers, six garden tractors, two rotary tillers, and a snow blower.

August of the Slattery group of companies which manufactures corn harvesting equipment and other farm machinery. The subsequent rationalization of the harvesting equipment and implement lines should add to the competitive strength of Massey-Ferguson in South Africa.

World Export Operations. In some 160 countries where Massey-Ferguson has neither subsidiaries nor Associate Companies, export sales during the first half of the year were below those of 1971, partly due to the manufacturing disruptions involved in the introduction of new tractor models, but by year-end were above 1971.

In export markets in Europe, there was a substantial increase in demand during the final quarter.

In Turkey, local assembly and sales of Massey-Ferguson products reached record levels and would have been even higher if it had not been for supply difficulties of certain imported components. A healthy currency reserve position and government emphasis on agricultural development have made Turkey a major market for Massey-Ferguson tractors.

In developing countries generally, tractor sales by the farm machinery industry were down, but market penetration by Massey-Ferguson was up. The lower demand was mainly the result of the devaluation of local currencies by some developing countries, of static or lower farm prices in certain markets and of political problems in others. Major government orders, however, particularly from the Sudan, have offset the decline in developing countries generally.

A region showing an impressive improvement in both sales and market penetration was the Middle East and North Africa. In Libya oil revenues supported a farm mechanization program that ensured a strong demand for Massey-Ferguson tractors.

Associate Companies and Special Operations. In a number of countries Massey-Ferguson has a minority interest in companies which are licensed to manufacture or assemble and sell the company's farm machinery. In 1972 the total sales of these Associate Companies and licensees amounted to \$224 million, compared with \$176 million in 1971.

Massey-Ferguson's wholly owned subsidiaries, Sunar Industries, acquired in 1955, and Art Woodwork Division, acquired in 1964, are now leaders in the Canadian market for metal and wood office furniture. Their sales in 1972 amounted to \$9.6 million.

For Spanish industry 1972 was a boom year. Total unit sales by Motor Iberica S.A., our Spanish Associate, set a record for all its products: farm and industrial machinery, trucks, and diesel engines. During the year, the Spanish-made MF 178 tractor and other farm machinery products were introduced and exports of farm machinery and trucks increased. A large and sophisticated truck assembly plant went into operation at Barcelona.

Mexico was a limited market in 1972 for all tractor manufacturers, but our Associate Company there achieved satisfactory sales of both locally built tractors and implements.

Tractors and Farm Equipment Limited, our Associate Company in India, had a very difficult year because of severe and prolonged labour difficulties arising out of inter-union rivalry. Despite highly successful sales under World Bank aid and a "gift" tractor program sponsored from the United Kingdom, the prolonged stoppage of production kept sales at a low level in 1972. Now that production has resumed, the outlook for 1973 is more favourable, given the high market demand.

Our Associate Company in Morocco, COMAGI, had a successful year with assembly and sales of tractors at improved levels. Elsewhere among developing countries, particularly in Pakistan and Uruguay, limited local assembly of tractors is progressing or, in several cases such as Iran, is under active discussion with local governments. In Turkey, a proposal for a new tractor company, in which Massey-Ferguson would hold a minority share, is currently being discussed with the Government.

In December 1972 an agreement was reached with the Peruvian Government to manufacture tractors and diesel engines in Trujillo. Production of tractors, by a company in which Massey-Ferguson will have a minority interest, is expected to begin in 1973 and could reach 2,000 units annually by 1975.

During the autumn of 1972, farm machinery was displayed at the Canadian Trade Exposition in Peking and at a major agricultural show in Moscow.

New Farm Machinery Products. The trend in most markets toward more powerful and larger capacity farm machinery is reflected in the machines introduced by Massey-Ferguson for sale in 1973. Following the highly successful launch of the MF 760 combine in North America in 1972, the new MF 750 has been introduced for 1973 sale, with a capacity between the MF 510 and the MF 760 combines. Like the latter machine, the MF 750 features ease of servicing, operator comfort and high performance in all grain crops.

At a major North American dealer show in December, involving some 6,000 participants, a new line of higher horsepower tractors — the

MF 1085, 1105, 1135 and 1155 — was enthusiastically received. In addition to increased horsepower, safety features and new styling, these tractors have new cabs with major innovations in improved operator convenience and comfort. Filtered air is provided for a dust-free environment and air-conditioning is available as an option.

In the United Kingdom, continental Europe and most export markets, the new MF 148, 168 and 188 tractors were introduced with great success in 1972. Their longer wheelbase provides increased stability and better handling; wet disc brakes and independent power take-off are standard equipment.

The MF 150 vineyard tractor and the 90 hp MF 1095 tractor were launched in the Argentine market.

The MF 260 forage harvester has been introduced to dealers in Canada and the United States for sale in 1973. The new MF 124 baler, announced in 1971, achieved widespread acceptance in 1972 in Canada and the United States and increased Massey-Ferguson's penetration of this market sector. The new MF 30 drill has been successfully launched in the United Kingdom.

INDUSTRIAL AND CONSTRUCTION MACHINERY

Sales of industrial and construction machinery were 21 per cent ahead of 1971, setting a record of $147.0 million, and marking a further stage in the consolidation of Massey-Ferguson's growing position in the highly competitive industrial and construction machinery industry.

In Canada, the United Kingdom, and the United States, a general improvement in economic circumstances, including a major advance in housing starts, has resulted in a sharp increase in demand for industrial and construction machines, especially those in Massey-Ferguson's range of products. Easier credit terms and the

The new MF 50B tractor-digger-loader, now in production in the United Kingdom, is a high performance, all purpose machine with excellent operator comfort and reduced noise levels. It will strengthen MF's position in the largest segment of the TDL market.

general economic recovery also encouraged a higher level of commercial building and public works projects, contributing further to the increase in sales.

In Brazil, where the local manufacture of crawler dozers was initiated in 1971, sales were more than doubled.

Elsewhere in Latin America, advances were made both in sales and distribution facilities.

Sales in France, Germany, South Africa and in some export territories were below 1971 levels due primarily to supply constraints resulting from labour disruptions in the United Kingdom and Italy.

During the year, a minority interest was acquired in Beltrami, a company in Ravenna, Italy, which has for a number of years supplied Massey-Ferguson with ICM components.

In September, an agreement was signed with a state trading corporation of Romania for the manufacture of Massey-Ferguson wheel-loaders and for their non-exclusive sale in Eastern Bloc countries. In December, the Mexican Government approved the local manufacture of an industrial tractor equipped with loader and backhoe.

During the past 18 months, there have been concentrated engineering and manufacturing efforts to improve reliability of industrial and construction machinery. The objective has been to continue to conform with or exceed the rapidly evolving standards in the industry for quality, reliability and performance. Dealer response and customer satisfaction with the results of this program have been gratifying.

During 1972, the MF 50B industrial tractor with loader and backhoe was introduced to Massey-Ferguson's world-wide markets. This machine, representing a major advance in ease of maintenance and improved comfort and safety for the operator, is part of a comprehensive program dealing with all aspects of the operator's environment. Development work on major components and on heavy-duty construction machinery is currently progressing satisfactorily, pointing the way to further advances in design and performance.

ENGINES

During the first half of 1972, engine sales continued to reflect the low demand of 1971. However, midway through the year, demand began to turn upward in most markets in response to growing production levels in the truck, farm, industrial and construction machinery industries. Sales of engines for the year set a new record at $117.7 million, representing an increase of $10.7 million or 10 per cent over 1971.

Total sales of Perkins engines and parts were $150.3 million, representing a new record and an increase of 11 per cent over 1971. The value of engines used by Massey-Ferguson in its farm, industrial and construction machinery was $80.0 million, an

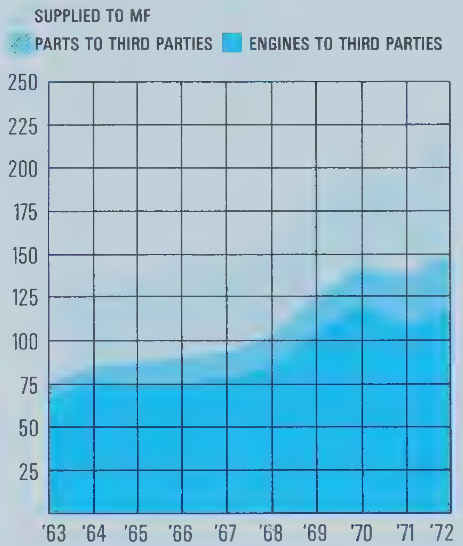
increase of $20.9 million over the previous year.

Major improvements in third-party sales of engines were achieved in Brazil and Turkey. However, European markets, including the United Kingdom, were below 1971 levels, although demand improved during the fourth quarter.

The world-wide total of Perkins engines manufactured in 1972 including those made by subsidiaries, Associates and licensees, was 370,000 units. Production in the United Kingdom alone accounted for 235,000 engines of which the majority was exported directly or installed in the equipment of manufacturing customers.

An agreement was signed in December 1972 for the manufacture of Perkins engines in Peru. It is expected the new company, in which Massey-Ferguson will have a minority interest, will achieve an annual volume of 15,000 diesel engines by 1975.

ENGINES GROUP SALES
(MILLIONS OF U.S. DOLLARS)



As part of the on-going efforts to keep down product costs, a major facility expansion at the main Perkins plant at Peterborough in the United Kingdom was undertaken for the "in-house" production of certain components previously purchased from other manufacturers. The manufacture of engines in France was phased out during the year, although Moteurs Perkins S.A. continues to spearhead a major marketing drive arising from new opportunities presented by Britain's entry into the European Economic Community.

On the technical front, pollution regulations continued to be a major challenge facing all engine manufacturers. During the year, appropriate action was taken by Perkins to increase its engineering resources and to ensure full compliance with current or expected legislation. In addition, a new noise test cell—one of the most modern in Europe and the only one of its type in the engine industry in the United Kingdom—was completed at a cost of $160,000 to provide Perkins with advanced capabilities for the design and development of quieter engines. To meet more stringent vehicle pollution legislation in the United Kingdom, Perkins launched a new 120 hp 6-cylinder vehicle engine during the year. It is the latest version of a very successful family of engines and is designed to operate 200,000 miles before major overhaul.

One of the more dramatic uses of Perkins' diesel engines is in this Mercury Air-Tug which is shown hauling a Concorde from its hangar for take-off. The tractor, powered by a 185 horsepower V8 engine, is specially designed to handle aircraft up to 300 tons.

INDUSTRIAL RELATIONS

In most locations in 1972, problems in union-management relations reflected general inflationary trends and rising employee expectations.

In the United States, the agreement made in June 1971 continued in effect. A new contract covering Canadian plants was concluded in October. However, the failure of employees to ratify this pact resulted in a 6½ weeks strike before an agreement extending to August 1974 was reached in November.

In the United Kingdom, the Industrial Relations Act came into force at the beginning of the year. Although this

An MF 510 combine was displayed at the Canadian Trade Exposition in Peking last autumn. Premier Chou En-lai (centre, in grey) was among the 250,000 visitors. Shortly after, an MF 760 combine was exhibited at an international show in Moscow.

had no direct impact in 1972 on our industrial relations in the United Kingdom, both Massey-Ferguson and Perkins were affected indirectly by consequential outside events, especially a prolonged dock strike. Wage and salary agreements were successfully renegotiated in all United Kingdom plants (including Perkins). Major industrial relations problems continued to be unofficial local strikes both in Massey-Ferguson plants and, increasingly, in those of suppliers.

In France, conditioned by the political situation, the restraint of the trade unions at the national level in the last quarter of 1971 continued throughout 1972. Strikes and demonstrations were, in the main, of short duration and on local issues. In Germany, there were no stoppages in the industry. Time lost in industrial disputes in West Germany in 1972 was the least among EEC countries. There was no lost time by strikes in Massey-Ferguson's German Operations, and the transfer of its head-headquarters from Kassel to Eschwege was accomplished with the cooperation of the unions. The Metal Trades agreement is currently being renegotiated.

The difficult economic and political conditions in Italy in 1971 continued in 1972. Social unrest and national economic uncertainties infected industrial relations throughout industry. Unprecedented absenteeism created a nation-wide economic problem. In an environment of inflation, declining profits and widespread political strikes, national negotiations are under way between the employers' association and the trade unions.

In South Africa, national negotiations were concluded in October providing preferential increases and improved opportunities for advancement for the lowest paid categories in the work force. In Australia, under its national arbitration system, awards by the Arbitration Commission and Industrial Courts moderated wage increases somewhat in 1972. In Argentina and Brazil, wages and working conditions remained subject to government control or regulation, and increases were linked to cost of living. Apart from political demonstrations in Argentina, union-management relations were stable in both Operations. In the free collective bargaining environment in Mexico, industrial relations in the Associate Company were untroubled.

BOARD AND SENIOR MANAGEMENT CHANGES

In October 1972, Mr. Thomas M. Ware decided to retire as a Director owing to pressure of other activities. His decision was accepted with regret and we wish to record our appreciation for his active interest in the company's business and his contribution as a Director since 1966.

The Duke of Wellington, for some years a valued Director of Massey-Ferguson Holdings Limited in the United Kingdom and of Motor Iberica S.A., our Spanish Associate Company, was elected a Director of this company.

At a meeting of the Executive Committee of the Board held on January 5th 1973, Mr. E. P. Taylor requested that he be relieved of the responsibilities of his position as Chairman, but agreed to continue as a member of the Committee. The Committee acted upon Mr. Taylor's request and Mr. John A. McDougald was elected Chairman of the Executive Committee.

The Board was informed in January by Mr. H. J. Carmichael that he had decided not to seek re-election as a Director. We wish to acknowledge

with appreciation Mr. Carmichael's outstanding contribution of industrial experience and knowledge during 26 years as a Director. In deference to Mr. Carmichael's wishes, his name will not be included in the slate of Directors to be presented at the next Annual Meeting of Shareholders.

Mr. A. E. Barron, Chairman of Canadian Tire Corporation Limited, Toronto, has agreed to allow his name to stand as a nominee for Director.

Sir Montague Prichard, who is Managing Director of Perkins Engines and a Director of Massey-Ferguson Limited, was knighted in June for services to the United Kingdom in the field of exports.

As described on pages 38-41, a major reorganization of the senior management structure of the company was announced in December. The changes mean new appointments for some of Massey-Ferguson's senior executives while others continue in their previous responsibilities. Senior positions in the new organization are as follows:

J. A. Belford, Vice President Personnel & Industrial Relations;
R. D. Bibow, Vice President Farm Machinery;
P. N. Breyfogle, Vice President Corporate Operations;
J. D. Goodson, Vice President Industrial & Construction Machinery;
R. W. Main, Vice President Administration;
J. E. Mitchell, Executive Vice President Americas;
Sir Montague Prichard, Executive Vice President Engines Group;
J. G. Staiger, Senior Vice President;
H. Vajk, Executive Vice President Asia/Africa/Australasia;
P. J. Wright, Executive Vice President Europe.

OUTLOOK FOR 1973

The widespread trend toward higher demand for farm machinery, which manifested itself in 1972, is expected to continue throughout 1973. The general economic advances in most major markets, the growth in international trade in grains and the higher prices for farm products, which have raised farm incomes and helped to revive farmers' confidence and their demand for farm machinery, is expected to benefit sales in 1973.

In Canada and the United States, grain exports are expected to remain at high levels. More generally, the outlook is for a further increase in farm income. The entry of the United Kingdom, Denmark and Eire into the European Economic Community should lead to a gradual rationalization of its agricultural policy and reduce uncertainties about its future course. Latin America, especially Brazil, shows every sign of remaining a dynamic growth market. The more buoyant nature of the economies of most major trading countries also suggests favourable conditions for further growth in sales of industrial and construction machinery. Housing starts in Canada and the United States may not sustain the unusually high rate of 1972, but they are expected to remain well above the average of recent years. Engine sales will benefit from the anticipated higher demand for farm, industrial and construction machinery and commercial vehicles.

Major capital expenditures of approximately $65 million are planned for 1973. Heavy investments in new product programs, cost-reduction projects, manufacturing rationalizations,

Introduced to the North American market in the autumn, the new Perkin's powered MF 1085, 1105, 1135 and 1155 have greatly improved performance, higher horsepower, operator comfort and serviceability. The cabs are of an entirely new 'low noise level' design.

replacement of machinery and equipment, and new manufacturing facilities (primarily in Brazil) will exceed any previous annual amount.

The product rationalization programs introduced over the past three years are now having a favourable impact. Distribution systems for farm and industrial and construction machinery have been further strengthened, and new products, including more powerful tractors and combines, place the company in an enhanced competitive position world-wide.

The improved economic outlook in Massey-Ferguson's major markets should create favourable conditions for continuing growth in sales of farm, industrial and construction machinery and engines. Cost reduction programs, together with anticipated growth in sales, indicate continuing improvement in results.

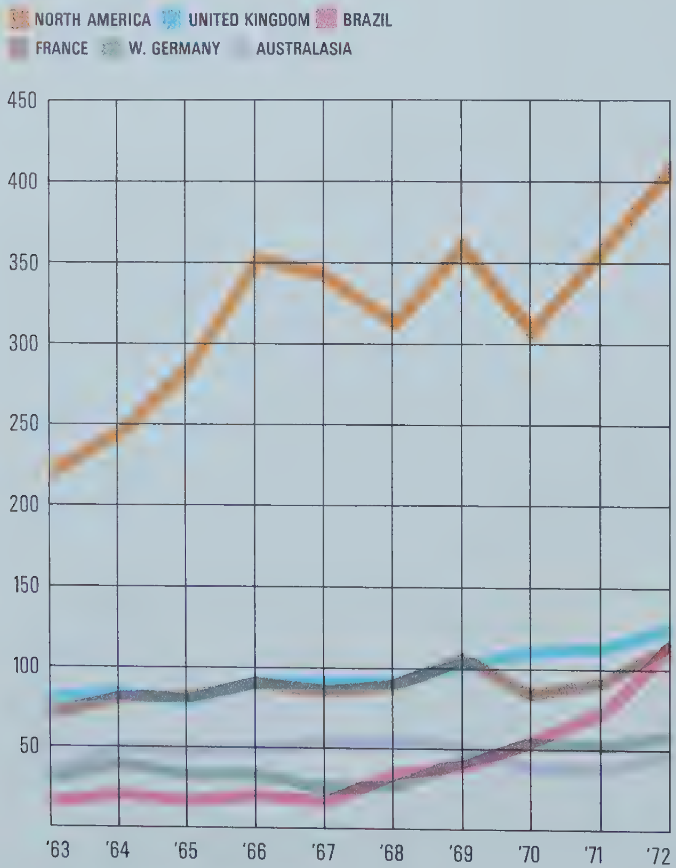
To employees, distributors and dealers, and Associate Companies, we extend our warm appreciation for their efforts which have enabled Massey-Ferguson to achieve record sales and an improved level of earnings during its 125th year.

Albert A. Thornbrough

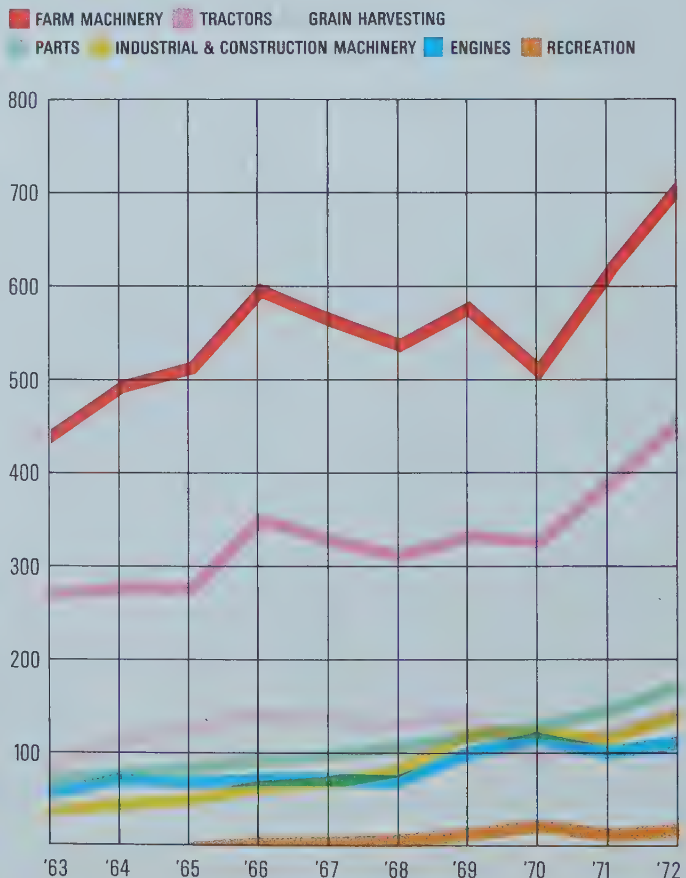
President and
Chief Executive Officer
Toronto, January 29, 1973

As part of MF's 125th anniversary celebration the "Massey-Ferguson Nature Preserve", a mixed forest and wetlands of high ecological value near Brantford, Ontario, was handed over by President Thornbrough to James S. Bauer, Chairman of the Grand River Conservation Authority.

NET SALES BY MARKETS
(MILLIONS OF U.S. DOLLARS)



NET SALES BY PRODUCTS
(MILLIONS OF U.S. DOLLARS)



the new product development process

To provide products meeting the highest standards of performance has been a goal of Massey-Ferguson throughout its 125-year history. Today, however, the demands of customers and governments concerning the design and performance of farm, industrial and construction machinery and diesel engines are more exacting than ever before.

To meet these increasingly stringent requirements, Massey-Ferguson has concentrated its research and development of tractors at its Advanced Project Engineering Centre near Detroit, United States; of harvesting machinery at the Corporate Harvesting Engineering Centre in Toronto, Canada; and of engines in Peterborough, England. The engineering departments at Operations Units supplement the work of these three principal centres and adapt standard products to local requirements.

The basic tasks of the three main research centres are to participate in the development of world-wide product strategies and, more specifically, to:

- analyze features of current competitive products;
- forecast probable future competitive product developments, in conjunction with market research;
- design new products that will meet current and future market and governmental requirements.

Future requirements in both farm and construction machinery markets increasingly focus on improving product safety and the work environment of the operator. Other fundamental requirements continue to be better output, serviceability and reliability.

At the three research centres, Massey-Ferguson and Perkins engineers use new technologies, often adapted from the aerospace and electronics industries, to meet the changing requirements. With these new technologies, it is possible to develop exacting laboratory testing that both supplements and reproduces field tests. Moreover, such tests can be made on a compressed time scale which, under normal field conditions, could require months or even years.

The tractor research centre (near Detroit) has developed a computer program in which the total vehicle reliability specification is broken down into reliability targets for such major sub-systems as transmissions, rear axles, hydraulic systems, etc. Predictions are then made for component reliability using analytical techniques derived from data for tractors of a comparable size, weight and power rating. The composite of these reliability data is then applied to the product design to ensure meeting previously determined reliability objectives.

Prototype machines are instrumented in the laboratory and subjected to a wide variety of tests. These instrumented machines are also operated for extended periods in the field under various conditions and with a representative cross section of tools and attachments.

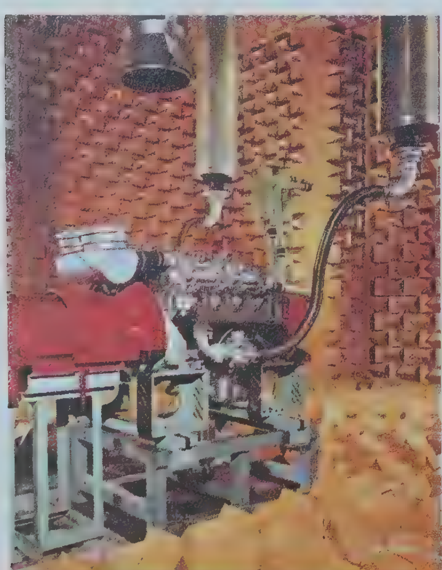
Combine testing, Toronto, Canada.

The resultant data are analyzed by computers to show not only the

Construction machinery tests at Aprilia, Italy.

Planter under field test in South Africa.

Advanced Project Engineering Centre, Detroit, U.S.A.



Engine test cell at Perkins, Peterborough, U.K.

magnitude of the loads on the experimental machines, but also quantitatively the frequencies with which these loads occur. Next, the reliability analysis predictions are combined with the up-dated field test data.

Any necessary design modifications are then incorporated in the components' designs. Laboratory tests, which precisely simulate field conditions, are subsequently carried out on multiple sets of each of the re-designed components. Further field validations are conducted in many countries to expose the machines to a wide variety of field conditions.

The proliferation of machinery variations, of customers' options and machine variables to meet local requirements imposes complexities upon field testing.

Wide ranges of performance requirements resulting from many combinations of soil, climatic conditions and hours of machine use must also be reflected in product designs and the approved product strategies.

The development process does not stop, however, until the new product has accumulated at least one full season of customer usage and evaluation and has demonstrated the level of reliability that meets or exceeds the original target level.

Another type of advanced research is being done by Perkins at Peterborough, England, employing more than 130 engineering and development test beds.

Cold chambers subject engines to temperatures of —40 degrees Centigrade and to altitude simulations up to the equivalent of 4,500 meters. The latest addition to the Peterborough facilities is one of the most advanced noise cells for engine research in Europe (pictured here and on the cover of this Report). Completed towards the end of 1972, it is the only noise cell in the United Kingdom structurally designed to accommodate not only engines but also vehicles and equipment weighing up to 12½ tons, enabling comprehensive measurement of combined engine and vehicle noise. The information obtained will assist in maintaining Perkins' lead in the development of advanced diesel engines.

Product validation, a strict series of procedures including extensive field testing, is applied to all engines prior to market launch. This ensures that units are produced to the standards of performance, engine life and reliability derived by the product planners and designers from the requirements of Perkins' customers.

Research is, however, only one part of Massey-Ferguson's total efforts to satisfy customer expectations and government requirements. Once the final design stage of a product has been reached, a wide variety of quality control measures ensures full customer satisfaction.

Raw materials and forgings are checked before they are passed for production. During the processing of components to the required high degree of accuracy, specimens are selected at random for sectioning and microscopic examination. In gear production, for example, each gear tooth must be machined to tolerances as close as .0005 of an inch. Quality control requires equipment capable of detecting the slightest defect which is then quickly traced to the source and corrective measures taken.

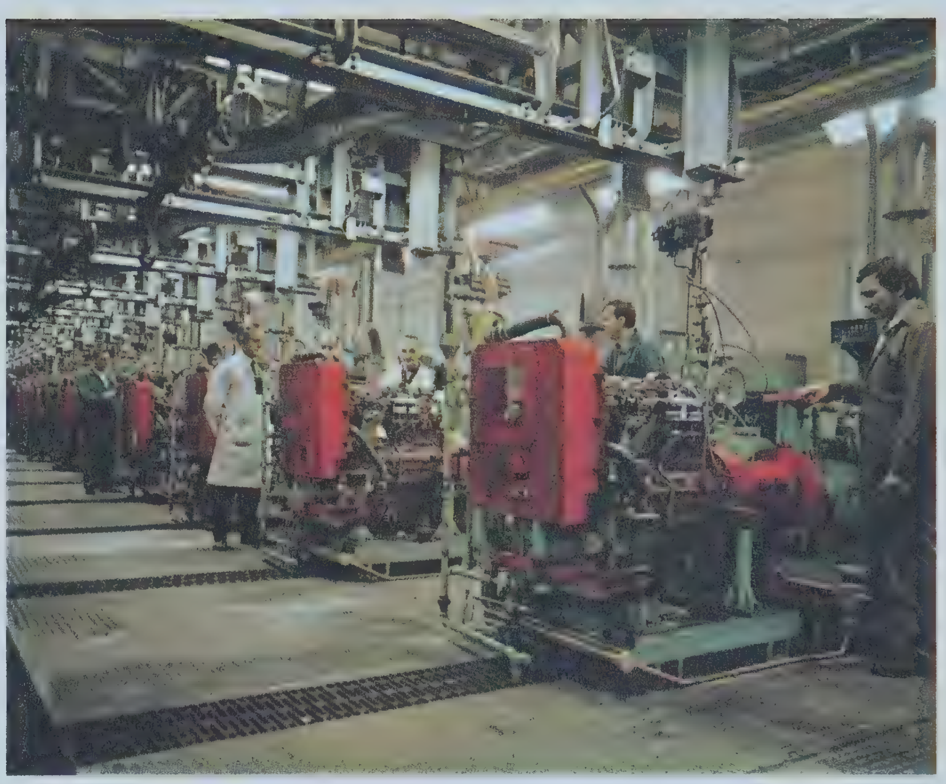
Just as materials and components are checked, every machine tool coming into the factory is examined

for process capability and calibrated before installation.

In addition, sampling and dimensional checks, quality control must cover such processes as heat treatment, plating, etc. New production techniques have to be matched with improved process controls such as ultrasonics or holography. Planning and implementing such controls is time-consuming and expensive, but it is one of the keys to product quality.

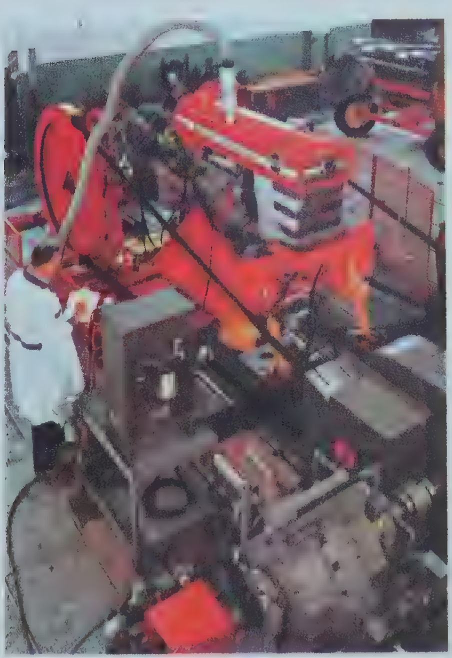
Inspection on the factory floor is supported by a broad range of specialist departments, researching, analyzing and collecting information, making certain that standards are maintained and that new techniques and processes are introduced.

Quality control in the manufacture of engines commences with the testing of "bought out" components and the inspection and evaluation of manufacturing processes of major suppliers.



Engine test beds at Perkins, Peterborough, U.K.

After passing stringent quality control and testing procedures in Perkins factories, and before being delivered to customers, engines taken at random are completely dismantled and inspected to ensure that they have been built to the required high standards.



Tractor tests at Detroit, U.S.A.

These and other techniques, control practices and tests are employed to ensure that the final product will perform for the customer, with proper operation and maintenance, to the stated standards and provide the operator with a safe, comfortable working environment.

The last stage of the new product development process involves continuing evaluation of the performance and reliability of Massey-Ferguson products in customer hands, using systems that monitor the field service support that each product requires.

Massey-Ferguson products are designed, built, tested and evaluated to give the customer the maximum satisfaction and to provide leadership standards for the farm, industrial and construction machinery and diesel engine industries.

Prototype work at Aprilia, Italy.

Clarkson, Gordon & Co.
Chartered Accountants

To the Shareholders of
Massey-Ferguson Limited:

We have examined the consolidated balance sheet of Massey-Ferguson Limited and its consolidated subsidiaries as at October 31, 1972, and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. We have also examined the combined statement of assets and liabilities of Massey-Ferguson Finance Company of Canada Limited, Massey-Ferguson Credit Corporation and its subsidiaries and Massey-Ferguson Export Finance Company Limited as at October 31, 1972, and the combined statement of income and retained earnings for the year then ended. Our examinations included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly (a) the financial position of Massey-Ferguson Limited and its consolidated subsidiaries as at October 31, 1972, and the results of their operations and the changes in their financial position for the year then ended and (b) the combined assets and liabilities of Massey-Ferguson Finance Company of Canada Limited, Massey-Ferguson Credit Corporation and its subsidiaries and Massey-Ferguson Export Finance Company Limited as at October 31, 1972, and the results of their operations for the year then ended, all in accordance with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

Clarkson, Gordon & Co.

Toronto, Canada,
December 18, 1972.

Chartered Accountants.

Massey-Ferguson Limited

CONSOLIDATED STATEMENT OF INCOME

Year ended October 31, 1972 (with comparative figures for 1971)
(Thousands of U.S. Dollars)

	1972	1971
SALES AND OTHER INCOME:		
Net sales (Notes 1c and 10b)	$1,189,972	$1,029,338
Interest and sundry income (Note 1d)	13,731	12,752
Profit on disposal of capital assets	2,648	2,382
TOTAL SALES AND OTHER INCOME	1,206,351	1,044,472
Deduct:		
Cost of goods sold	932,517	814,648
Marketing, general and administrative expenses	159,750	143,281
Engineering expenses	27,232	24,302
Interest on long-term debt	13,451	13,520
Interest on bank and other short-term debt	29,855	37,029
Exchange adjustments	334	(619)
Minority interest	758	2,576
	1,163,897	1,034,737
PROFIT BEFORE INCOME TAXES, EQUITY IN NET INCOME OF FINANCE AND ASSOCIATE COMPANIES AND EXTRAORDINARY ITEM	42,454	9,735
Income Taxes (Notes 1j and 5)	15,787	5,675
PROFIT BEFORE EQUITY IN NET INCOME OF FINANCE AND ASSOCIATE COMPANIES AND EXTRAORDINARY ITEM	26,667	4,060
Equity in net income of finance companies (Note 1a)	4,386	4,740
Equity in net income of associate companies (Note 1d)	993	455
INCOME BEFORE EXTRAORDINARY ITEM	32,046	9,255
Gain on sale of surplus property (Note 3)	8,251	
NET INCOME FOR THE YEAR	$ 40,297	$ 9,255
INCOME PER SHARE (in U.S. dollars):		
Before extraordinary item	$ 1.76	$ 0.51
Extraordinary item	0.45	—
Net Income	$ 2.21	$ 0.51

(See accompanying Notes to Consolidated Financial Statements)

Massey-Ferg

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CONSOLIDATED

October 31, 1972 (with compar
(Thousands c

ASSETS

	1972	1971
CURRENT ASSETS:		
Cash	$ 9,859	$ 33,060
Receivables (Notes 1c and 2)	368,480	339,102
Inventories, valued at the lower of current cost or net realizable value—		
Raw materials and work in process	179,360	146,603
Finished goods	182,876	188,816
Total inventories	362,236	335,419
Prepaid expenses and other current assets (Note 5)	33,388	30,023
TOTAL CURRENT ASSETS	773,963	737,604
INVESTMENTS:		
Wholly owned finance companies, at equity in net assets (Note 1a)	41,216	36,860
Associate Companies (Note 1d)	34,775	30,591
First mortgage receivable (Note 3)	8,044	
	84,035	67,451
FIXED ASSETS:		
Land	8,909	9,336
Buildings	132,681	129,545
Machinery and equipment	287,679	278,783
Production tooling	35,650	31,936
Total fixed assets, at cost	464,919	449,600
Less accumulated depreciation and amortization (Note 1e and 4)	284,477	263,330
	180,442	186,270
OTHER ASSETS AND DEFERRED CHARGES (Note 5)	18,875	19,703
	$1,057,315	$1,011,028

ON BEHALF OF THE BOARD:
E. P. Taylor, Director
Albert A. Thornbrough, Director

son Limited

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ALANCE SHEET

e figures at October 31, 1971)
.S. Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1972	1971
CURRENT LIABILITIES:		
Bank borrowings	**$ 139,736**	$ 167,687
Other short-term borrowings	**12,096**	20,432
Accounts payable and accrued charges	**210,164**	188,115
Income, sales and other taxes payable	**35,093**	23,299
Advance payments from customers	**4,024**	2,893
TOTAL CURRENT LIABILITIES	**401,113**	402,426
DEFERRED INCOME TAXES (Note 5)	**4,066**	1,955
LONG-TERM DEBT:		
Bonds, debentures, notes and loans (Note 8)	**205,631**	195,311
Less instalments maturing within one year, included with other short-term borrowings	**9,844**	8,348
	195,787	186,963
MINORITY INTEREST IN SUBSIDIARIES	**12,316**	15,948
SHAREHOLDERS' EQUITY:		
Share capital (Note 9)	**176,061**	176,061
Retained earnings (including retained earnings of unconsolidated finance companies: October 31, 1972 — $26,995; October 31, 1971 — $22,639) (Note 7)	**267,972**	227,675
	444,033	403,736
	$1,057,315	$1,011,028

(See accompanying Notes to Consolidated Financial Statements)

Massey-Ferguson Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended October 31, 1972 (with comparative figures for 1971)
(Thousands of U.S. Dollars)

	1972	1971
SOURCE OF FUNDS:		
Income for the year before extraordinary item	$ 32,046	$ 9,255
Add (deduct):		
Depreciation, and amortization of production tooling	31,535	30,459
Equity in earnings of finance companies in excess of dividends received	(4,356)	(4,711)
Equity in earnings of Associate Companies in excess of dividends received (Note 1d)	(487)	
Increase in deferred income taxes	2,111	461
Recoverable taxes		(1,979)
Funds from operations	60,849	33,485
Issues of long-term debt	23,292	51,004
Gain on sale of surplus property	8,251	
Net book value of fixed asset disposals	2,668	3,758
Decrease (increase) in other assets and deferred charges	828	(362)
TOTAL FUNDS PROVIDED	$ 95,888	$ 87,885
USE OF FUNDS:		
Additions to fixed assets	$ 28,375	$ 27,014
Reduction in long-term debt	14,468	24,043
First mortgage receivable	8,044	
Increase (decrease) in investments in Associate Companies	3,697	(4,901)
Decrease (increase) in minority interest in subsidiaries	3,632	(2,176)
Increase in working capital as set out below	37,672	43,905
TOTAL FUNDS USED	$ 95,888	$ 87,885
CHANGES IN ELEMENTS OF WORKING CAPITAL:		
WORKING CAPITAL AT BEGINNING OF YEAR	$ 335,178	$ 291,273
Current assets—increase (decrease):		
Cash	(23,201)	5,497
Receivables	29,378	30,045
Inventories	26,817	(27,013)
Prepaid expenses and other current assets	3,365	(4,168)
	36,359	4,361
Current liabilities—(increase) decrease:		
Bank and other short-term borrowings	36,287	27,913
Accounts payable and accrued charges	(22,049)	7,759
Income, sales and other taxes payable	(11,794)	(3,279)
Advance payments from customers	(1,131)	7,151
	1,313	39,544
NET INCREASE IN WORKING CAPITAL	37,672	43,905
WORKING CAPITAL AT END OF YEAR	$ 372,850	$ 335,178

(See accompanying Notes to Consolidated Financial Statements)

Massey-Ferguson Limited

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended October 31, 1972 (with comparative figures for 1971)
(Thousands of U.S. Dollars)

	1972	1971
BALANCE AT BEGINNING OF YEAR	**$ 227,675**	$ 218,420
Net income for the year	**40,297**	9,255
BALANCE AT END OF YEAR	**$ 267,972**	$ 227,675

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31, 1972 (with comparative figures for 1971)
(In U.S. Dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation
The accompanying financial statements consolidate the accounts of all subsidiary companies except for the three wholly owned finance companies, two in North America and one in the United Kingdom, which are not consolidated because of the different nature of their business. Combined statements of the finance subsidiaries are set out separately on page 26. The investment in these companies is carried in the Consolidated Balance Sheet at the equity in their net assets and their earnings have been included in the Consolidated Statement of Income.

(b) Exchange Translation
The statements of companies outside the United States have been translated into U.S. dollars as follows: current assets, current liabilities and long-term debt at exchange rates prevailing at the end of the period; investments, fixed assets and depreciation provisions on the basis of rates prevailing at date of acquisition; income and expenses (other than depreciation provisions) at average rates during the period. Exchange gains or losses resulting from such translation practices are reflected in the Consolidated Statement of Income.

(c) Sales and Receivables
Sales are recorded at the time of shipment to distributors, dealers and other customers. A major portion of the receivables consists of non-interest-bearing notes received from dealers. Although these include, to the extent indicated in Note 2, notes maturing beyond one year (subject to earlier settlement when the product is sold by the dealer), they are included in current assets in accordance with accounting practice in the industry.

(d) Investment in Associate Companies
In 1971 and prior years, investments in Associate Companies (i.e., those in which the company owns 50% or less of the voting shares) were accounted for at cost and dividends were reflected in income when received. In 1972, in accordance with recent trends in financial reporting, the company adopted the equity method of accounting for its investments in those Associate Companies in which it has a significant influence over operating and financial policies. Under this method, the company's share of the net income of these Associate Companies is included currently in the Consolidated Statement of Income rather than when realized through dividends, and the investments are carried in the Consolidated Balance Sheet at original cost plus the company's share of undistributed earnings since acquisition. Investments in other Associate Companies continue to be carried at cost ($2,040,000).
The effect of this change on consolidated net income in any prior year and cumulatively to October 31, 1971, is not material, and has been included in 1972 income. As a result of the change, consolidated net income for 1972 is $487,000 higher than on the previous basis (of which $45,000 represents the cumulative effect to October 31, 1971).
The 1971 comparative figure for Equity in Net Income of Associate Companies represents dividends previously included with Interest and Sundry Income, less related withholding taxes.

Shares in the Mexican Associate Company, held in trust pending purchase by Mexican citizens but for which the company has temporary economic rights, have been reclassified in 1972 from Other Assets and Deferred Charges to Investment in Associate Companies and the 1971 comparative figures have been restated accordingly.

(e) Fixed Assets
Additions to fixed assets are recorded at cost. Depreciation of facilities is provided on a straight line basis in substantially all of the companies, at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	5 to 50 years
Machinery and Equipment	3 to 10 years
Trucks and Automobiles	3 to 5 years
Office Furniture and Equipment	5 to 10 years

Production tooling for new products and for major product changes is generally amortized over a three-year period commencing with the first year of full utilization of the tooling concerned; tooling for replacements and for minor product changes is charged against income at the time of purchase.

(f) Amortization of Intangibles
Goodwill on the acquisition of subsidiaries and start-up expenses included in Other Assets and Deferred Charges are written off over periods of ten and four years respectively.

(g) Research and Development Costs
Research and development costs are charged against income as incurred.

(h) Warranty and Modification Costs
The costs of any major programs to modify product in the hands of customers are accrued when the costs of the programs become identifiable and are approved by management. Normal warranty costs are expensed as paid.

(i) Pensions
A substantial portion of the companies' employees are covered by insured or trusteed pension plans. The costs of these plans are charged against income in the year premiums or funding requirements are paid. Past service costs in trusteed plans are generally being funded over periods of up to 25 years.

(j) Income Taxes
The company follows the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) result in deferred or prepaid taxes.
In the case of one subsidiary, future tax recoveries have been recognized in the accounts in loss years where, in the opinion of management, it is virtually certain that future earnings will be sufficient to realize them. In all other cases the benefits of loss carry-forwards are not recognized until realized. The multinational nature of Massey-Ferguson's operations is such that, on a continuing basis, some subsidiaries are incurring losses (without recognition of the potential carry-forward tax benefits) at the same time as other subsidiaries are realizing the tax benefit of previous losses. On a consolidated basis these annually recurring tax recoveries are not considered to be extraordinary in nature, and are accordingly reflected as reductions of current income tax charges when realized.
Dividend payments from subsidiaries in a number of countries are subject to withholding taxes. Such taxes are reflected in consolidated earnings only at the time of actual dividend remittance as substantially all the unremitted accumulated earnings of such subsidiaries have been reinvested on a long-term basis.

2. RECEIVABLES

(a) Receivables include amounts due from finance subsidiaries of $15,048,000 in 1972 and $12,526,000 in 1971.
(b) Approximately $60,000,000 or 16% in 1972 ($80,000,000 or 24% in 1971) of receivables mature beyond one year, but have been included in current assets as explained in Note 1(c).
(c) Receivables are shown net of the following provisions:

	1972	1971
Allowance for doubtful notes and accounts	**$11,662,000**	$ 8,499,000
Volume and performance bonuses, returns and other allowances	**14,257,000**	13,345,000
Unearned interest	**1,548,000**	1,855,000
	$27,467,000	$23,699,000

3. FIRST MORTGAGE RECEIVABLE

In August 1972, the company sold surplus property near Toronto which resulted in an extraordinary gain of $8,251,000. Under the terms of the sale, the company received a substantial cash payment plus a first mortgage of $8,044,000. The mortgage bears a commercial rate of interest and is to be paid in instalments commencing

February 1974 and terminating no later than August 1979.

4. DEPRECIATION AND AMORTIZATION

Depreciation, and amortization of production tooling charged to operations in 1972 totalled $31,535,000 (1971—$30,459,000).

5. INCOME TAXES

The company's accounting policies with respect to income taxes are set out in Note 1(j). Deferred and prepaid income taxes and estimated recoverable taxes in respect of loss carry-forwards are carried on the balance sheet as follows:

Deferred income taxes ($4,066,000 in 1972 and $1,955,000 in 1971) resulting from capital cost allowances claimed for tax purposes in excess of depreciation and amortization recorded in the accounts (shown separately).

Prepaid income taxes ($16,053,000 in 1972 and $13,926,000 in 1971) relating to various provisions made for accounting purposes which have not yet become deductible for tax purposes (grouped with Prepaid Expenses and Other Current Assets).

Recoverable taxes ($4,602,000 in 1972, unchanged from 1971) relating to prior years' losses represented by unclaimed capital cost allowances where, in the opinion of management, it is virtually certain that future earnings will be sufficient to realize them (grouped with Other Assets and Deferred Charges).

Income taxes shown in the Consolidated Statement of Income have been reduced by tax credits arising from prior years' losses which, net of other tax adjustments primarily relating to prior years, amount to $4,500,000 in 1972 and $1,900,000 in 1971. At October 31, 1972 certain companies had losses available to be carried forward for which potential recoveries have not been recognized in the accounts; at current tax rates, the tax recoveries which would result will, if realized, amount to approximately $15,000,000.

6. CONTINGENT LIABILITIES, COMMITMENTS, ETC.

(a) The total contingent liabilities relating to notes receivable discounted and bills guaranteed etc. were as follows: October 31, 1972 — $65,800,000; October 31, 1971 — $61,700,000.

(b) Under subscription agreements relating to the short-term bank borrowings and senior and subordinated notes of the two North American finance subsidiaries, Massey-Ferguson Limited has agreed that it will ensure that assets are maintained in those companies in certain specified relationships with their indebtedness.

(c) Approved capital expenditure programs outstanding at the year-end were as follows: October 31, 1972 — $44,000,000 (including commitments of approximately $16,000,000); October 31, 1971 — $26,000,000 (including commitments of approximately $7,500,000).

(d) Total pension expense was $15,400,000 in 1972 and $14,300,000 in 1971, including past service costs. The unfunded past service cost for all trusteed plans in effect at October 31, 1972 is estimated at approximately $63,000,000 (1971—$49,000,000), including an estimated $44,000,000 (1971—$35,000,000) which is actuarially computed to have vested. The increase results primarily from the recent Canadian labour contract settlement. The companies have no legal obligation with regard to the past service liability including that portion which has vested. See Note 1(i) regarding the basis of accounting for pension costs.

7. DIVIDEND RESTRICTIONS

On March 11, 1971 the directors announced a decision to limit dividend payments to not more than 50% of net income earned after October 31, 1970. This decision was subsequently incorporated into a short-term revolving credit agreement which expires on March 31, 1973.

The long-term loan agreements of certain subsidiary companies contain additional restrictions on the payment of dividends. Under the most restrictive of these, approximately $97,000,000 of consolidated retained earnings is not available for the payment of dividends to shareholders of Massey-Ferguson Limited. Of the remaining $171,000,000, approximately $89,000,000 represents the company's equity in the unrestricted portion of profits of various subsidiaries and Associate Companies outside North America which have not been remitted to Canada. Transfers of earnings from companies outside North America are generally subject to the approval of exchange control authorities, but permission to pay dividends is normally obtainable.

8. LONG-TERM DEBT

Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31:

	(Thousands of U.S. Dollars)	
	October 31 1972	October 31 1971
MASSEY-FERGUSON S.A. (FRANCE):		
7% Mortgage Loans maturing 1973-75	**$ 696**	$ 942
8¼% Bank Loan maturing 1978-80	**7,363**	6,697
Bank Loan maturing 1973-75 repayable in U.S. dollars (bearing interest at ¾% above Eurodollar interbank rate)	**3,069**	3,009
MASSEY-FERGUSON GmbH. (GERMANY):		
2½% Loan maturing 1973-74	**117**	169
2½%-3½% Mortgage Loans maturing 1973-98	**2,740**	2,846
7½% Bank Loan maturing 1978-80	**12,480**	6,000
MASSEY-FERGUSON ICM S.p.A. (ITALY):		
3%-4% Mortgage Loans maturing 1973-83	**11,072**	10,997
MASSEY-FERGUSON LANDINI S.p.A. (ITALY):		
9% Mortgage Loan maturing 1973-82 repayable in U.S. dollars	**1,667**	1,800
MASSEY-FERGUSON INDUSTRIES LIMITED (CANADA):		
5⅞% Secured Promissory Note maturing 1973-85	**18,179**	19,250
8% Mortgage Loan maturing 1973-75	**324**	435
MASSEY-FERGUSON INC. (U.S.A.):		
5¼% Promissory Notes maturing 1973-83	**21,700**	23,600
5⅞% Subordinated Notes maturing 1973-84	**22,920**	24,480
MASSEY-FERGUSON HOLDINGS LIMITED (UNITED KINGDOM):		
7½% Loan Stock maturing 1973-92	**29,019**	31,175
Bank Loans maturing 1973-79 (bearing interest 2%-2½% above bank base rate)	**22,426**	14,839
MASSEY-FERGUSON NEDERLAND N.V. (NETHERLANDS):		
9% Sinking Fund Debentures maturing 1973-82 repayable in U.S. dollars	**18,500**	20,000
7½% Bank Loan maturing 1978-80 repayable in German marks (transferred in 1972 to Massey-Ferguson GmbH.)		6,000
MASSEY-FERGUSON REALTY CORPORATION (U.S.A.):		
Mortgage Loan maturing 1973-80 (bearing interest at ½% above prime rate)	**1,703**	1,846
GENERAL BANK STANDBY LOAN:		
Repayable in U.S. dollars, renewable until 1975 (bearing interest at ¾% above Eurodollar interbank rate)	**30,000**	20,000
OTHER LONG-TERM DEBT:	**1,656**	1,226
	$205,631	$195,311

Sinking fund requirements and debt maturities during the next five years are as follows:
1973—$9,884,000; 1974—$12,942,000; 1975—$44,206,000; 1976—$14,398,000; 1977—$15,415,000.

9. SHARE CAPITAL, STOCK OPTIONS AND RESERVATION OF SHARES

(a) The authorized share capital consists of 25,000,000 common shares without nominal or par value, of which 18,195,450 shares were outstanding at October 31, 1972 (unchanged from October 31, 1971).

(b) Employee stock options were outstanding at October 31, 1972 with respect to an additional 94,450 common shares exercisable by various dates up to 1976 as follows:

Granted	Option Price (Canadian Dollars)	Outstanding October 31, 1971	Expired During 1972	Outstanding October 31, 1972
1966	32.25	1,600	1,600	
1966	35.94	3,000	3,000	
1967	24.25	1,000	1,000	
1968	16.75	1,000		1,000
1968	17.31	3,000		3,000
1968	18.25	46,050	1,500	44,550
1969	18.13	5,200	1,000	4,200
1969	18.25	9,700		9,700
1969	18.50	1,000	500	500
1969	23.44	7,500		7,500
1970	16.50	2,500		2,500
1970	9.31	19,000	500	18,500
1971	11.13	3,000		3,000
		103,550	9,100	94,450

Of the outstanding options 39,100 are for Directors and Officers. A further 175,800 unissued common shares are reserved for possible future employee options.

10. OTHER STATUTORY INFORMATION

(a) Aggregate remuneration to persons who served as Directors and Officers of Massey-Ferguson Limited at any time during the year was as follows:

	18 Directors	19 Officers
	(4 Officers were also Directors)	
Remuneration paid by:		
Massey-Ferguson Limited (holding company)	$56,000	$ 698,000
Subsidiary Companies—principally Massey-Ferguson Inc. (U.S.A.)	6,000	534,000
	$62,000	$1,232,000

(b) The company's manufacturing and marketing operations are highly integrated and thus it is the opinion of the Directors that the company has only one line of business. Within this business, sales by major categories in millions of U.S. dollars were:

	1972	1971
Farm Machinery	$ 715.0	$ 622.7
Industrial & Construction Machinery	147.0	121.6
Engines	117.7	107.0
Parts	175.1	150.4
Recreation Products	22.7	18.4
Other Products	12.5	9.2
TOTAL	$1,190.0	$1,029.3

Massey-Ferguson Finance Company of Canada Limited
Massey-Ferguson Credit Corporation and its subsidiaries
Massey-Ferguson Export Finance Company Limited

COMBINED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended October 31, 1972 (with comparative figures for 1971)
(Thousands of U.S. Dollars)

	1972	1971
REVENUE:		
Interest and finance fees	$ 30,139	$ 30,850
Discounts	2,360	2,476
	32,499	33,326
EXPENSES:		
Administrative expenses	9,036	8,177
Interest on long-term debt	8,757	8,044
Interest on short-term debt	6,346	7,616
Provision for doubtful accounts	277	461
Exchange adjustments	81	(155)
	24,497	24,143
INCOME BEFORE INCOME TAXES	8,002	9,183
Provision for income taxes:		
Current (net in 1972 of $265 credit relating to prior years)	3,294	5,861
Deferred	322	(1,418)
	3,616	4,443
NET INCOME FOR THE YEAR	4,386	4,740
RETAINED EARNINGS AT BEGINNING OF YEAR	22,639	17,928
	27,025	22,668
Dividends on preferred shares	30	29
RETAINED EARNINGS AT END OF YEAR	$ 26,995	$ 22,639

COMBINED STATEMENT OF ASSETS AND LIABILITIES

October 31, 1972 (with comparative figures at October 31, 1971)
(Thousands of U.S. Dollars)

	1972	1971
ASSETS:		
Cash	$ 4,630	$ 7,321
Receivables (Note 2)	329,851	301,315
Prepaid expenses	3,085	2,560
Property leased to an affiliate (at cost less accumulated depreciation of $521 in 1972 and $400 in 1971)	3,221	3,391
	$ 340,787	$ 314,587
LIABILITIES:		
Short-term notes payable—Banks	$ 106,367	$ 103,056
—Others	34,703	23,964
Due to affiliates	15,048	12,526
Dealer deposits	7,368	4,967
Accrued charges	4,663	5,126
Income taxes payable	493	1,030
Deferred income taxes	4,130	3,808
Long-term debt (Note 3)	126,799	123,250
	299,571	277,727
EQUITY OF MASSEY-FERGUSON LIMITED:		
Share capital	14,221	14,221
Retained earnings (Note 3)	26,995	22,639
	41,216	36,860
	$ 340,787	$ 314,587

(See accompanying Notes to Combined Finance Companies' Statements)

NOTES TO COMBINED FINANCE COMPANIES' STATEMENTS

Year ended October 31, 1972 (with comparative figures for 1971)
(In U.S. Dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying financial statements combine the accounts of Massey-Ferguson Finance Company of Canada Limited, Massey-Ferguson Credit Corporation (U.S.A.) and its subsidiaries, and Massey-Ferguson Export Finance Company Limited (U.K.).

While the books of the Canadian and United States companies are maintained, and their tax returns filed, on a modified cash basis of accounting, the accompanying financial statements incorporate adjustments to reflect the financial position of the companies on an accrual basis of accounting.

(b) Exchange Translation

The statements of the Canadian and United Kingdom companies have been translated into U.S. dollars as follows: assets and liabilities at exchange rates prevailing at the end of period; share capital at rates prevailing at the date of issue; revenue and expenses at average exchange rates during the period. Exchange gains or losses resulting from such translation practices are reflected in the Combined Statement of Income and Retained Earnings.

(c) Finance Income

Interest and discounts are taken into income generally in declining amounts over the life of the contract using an effective yield method.

(d) Classification of Assets and Liabilities

In accordance with industry practice, the assets and liabilities have not been classified as current or non-current.

2. RECEIVABLES

Receivables are shown net of the following provisions: unearned interest and discount 1972 — $48,590,000; (1971 — $48,376,000); allowance for doubtful accounts 1972 — $2,235,000; (1971 — $1,901,000).

At October 31, 1972 approximately $194,295,000 (before provisions) or 51% of the receivables mature beyond one year ($177,500,000 or 50%, at October 31, 1971), as follows:

1974	$ 98,164,000
1975	60,903,000
1976	27,846,000
1977 and beyond	7,382,000
	$194,295,000

Included in the North American receivables are interest bearing, wholesale receivables of $17,017,000 in 1972 and $20,217,000 in 1971.

Changes in receivables were as follows:
purchases 1972—$376,969,000 (1971—$343,120,000); liquidations 1972 – $345,164,000 (1971 – $344,550,000).

3. LONG-TERM DEBT

(a) *Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31:*

(Thousands of U.S. Dollars)

	October 31 1972	October 31 1971
MASSEY-FERGUSON FINANCE COMPANY OF CANADA LIMITED:		
9¾% Senior Debentures maturing 1980	**$ 10,170**	$ 10,000
8¾% Subordinated Notes maturing 1974	**1,017**	2,000
8½% Subordinated Notes maturing 1975-84	**6,102**	6,000
MASSEY-FERGUSON CREDIT CORPORATION (U.S.A.):		
7⅝% Senior Notes maturing 1973-88	**21,000**	21,000
5¼% Senior Notes maturing 1977-86	**25,000**	25,000
Senior Notes maturing 1974-76, 7⅝% at October 31, 1972 (rate varies at 1¼% above six-month Eurodollar rate in London)	**25,000**	25,000
Senior Notes maturing in 1975, 7⅜% at October 31, 1972 (rate varies at 1% above six-month Eurodollar rate in London)	**15,000**	15,000
5½% Subordinated Notes maturing 1973-80	**8,000**	9,000
7⅞% Subordinated Notes maturing 1973-88	**5,250**	5,250
Subordinated Notes maturing 1975, 7⅝% at October 31, 1972 (rate varies at 1¼% above six-month Eurodollar rate in London)	**5,000**	5,000
7¾% Subordinated Loan due 1977 (payable in Swiss Francs)	**5,260**	
	$126,799	$123,250
Senior	**$ 96,170**	$ 96,000
Subordinated	**30,629**	27,250
Total Long-Term Debt	**$126,799**	$123,250

(b) Instalments due and maturities during the next five years are as follows: 1973, $2,575,000; 1974, $11,592,000; 1975, $31,185,000; 1976, $13,202,000; 1977, $11,962,000.

(c) In connection with the agreements relating to the long- and short-term debt, $18,495,000 of the companies' retained earnings are restricted as to dividends.

financial review

BASIS OF CONSOLIDATION

A summary of Massey-Ferguson's significant accounting policies is set out in Note 1 to the Financial Statements.

The Consolidated Financial Statements include the world-wide results of the operations of the company and all its subsidiaries and of its significant Associate Companies (in which Massey-Ferguson has a minority interest). Associate Companies were formerly recorded at cost, but in accordance with recent accounting trends the more significant ones are now being carried at equity in their net assets as explained in the Investment section of this review.

Late in the year the Slattery group of companies was acquired in South Africa. Their balance sheet has been consolidated but, because of the date of acquisition, their operating results will not be consolidated until 1973.

The Financial Statements are presented in U.S. dollars in order to provide a more consistent and meaningful measurement of consolidated operating results from year to year. Despite current problems, the U.S. dollar remains as the monetary standard against which other currencies are measured. Reporting in U.S. dollars smooths out substantially exchange fluctuations that would otherwise result from the use of the Canadian dollar which is floating in relation to other currencies. Such differences would be largely unrelated to actual operations and would have a distorting effect. Additionally, assets outside Canada represent 87% of the consolidated total, and there are significantly more assets in the United States than in any other country. Details of the procedures followed to translate to U.S. dollars are set out in Note 1(b).

OTHER INCOME

Interest and Sundry Income is primarily interest earned on open accounts with dealers. This increased during the year by $1.0 million spread throughout our various operations. In addition, the account contains royalties and other fees from third parties and Associate Companies.

Every year, in the normal course of operations, the company disposes of some capital assets. The profit on these disposals in 1972 totalled $2.6 million, the greatest portion of which is made up from sales of land in Australia. In 1971, Profit on Disposal of Capital Assets totalled $2.4 million. The sale in 1972 of surplus property near Toronto resulted in an extraordinary gain of $8.3 million, which is shown separately in the Consolidated Statement of Income.

COSTS

Cost of goods sold as a percentage of sales continued to decline and reached 78.4% versus 79.1% in 1971. This reflects the substantial increase in sales volume in 1972, the full year benefits of cost reduction programs instituted in late 1970 and throughout 1971 and the floating of sterling during the last quarter of 1972. These factors should provide further benefits in 1973. Marketing, General and Administrative Expenses showed improvement relative to sales, primarily as the result of management actions in the last two years to control costs coupled with the substantial volume increase. Short-term and long-term interest costs declined in total as well as in relation to sales. This stems from lower borrowing as a result of improved profit and generally lower short-term interest rates throughout the world. The impact of the many currency fluctuations world-wide in 1972 is recorded as Exchange Adjustments and is not significant in the consolidated total.

INCOME TAXES

As explained in Notes 1(j) and 5, income taxes are provided for on the tax allocation principle.

The increased income tax expense in 1972 is the result of the generally increased profitability of the companies included in the Consolidated Financial Statements. However, the wide range of rates applicable to the

GEOGRAPHICAL DISTRIBUTION OF ASSETS EMPLOYED
(MILLIONS OF U.S. DOLLARS)

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
NORTH AMERICA	$ 486.8	487.1	471.3	474.9	426.6	427.5	355.9	297.0	260.2	237.7
EUROPE	$ 408.2	382.1	405.1	403.3	342.7	326.8	320.9	300.6	239.3	216.1
LATIN AMERICA	$ 86.3	64.4	60.5	61.3	43.5	45.4	43.1	29.1	26.2	23.1
AUSTRALASIA	$ 44.3	46.1	45.5	47.9	39.9	40.9	41.6	39.9	35.7	28.7
AFRICA	$ 30.4	29.0	27.0	24.4	19.6	21.2	23.3	25.2	19.2	19.5
ASIA	$ 1.3	2.3	2.3	2.1	2.1	2.0	2.0	2.0	2.1	1.0
TOTAL	$1,057.3	1,011.0	1,011.7	1,013.9	874.4	863.8	786.8	693.8	582.7	526.1

taxable incomes of the various subsidiary companies and the year-to-year fluctuations in their individual contributions to the consolidated results make it difficult to compare income taxes from one year to another.

Income taxes reflect the utilization of prior years' losses in certain subsidiaries. The net credit from such loss carry-forwards, less other tax adjustments primarily in respect of prior years, amounted to $4.5 million in 1972 compared with $1.9 million in 1971. Such carry-forwards are normal in a multinational group operating under many tax jurisdictions and varying economic circumstances.

Certain subsidiary companies have not yet returned to profitable operations and, in accordance with current accounting conventions, no 1972 tax credit has been taken in these cases. Losses are available to be carried forward, for which potential tax recoveries have not yet been recognized in the financial statements. At current rates, tax reductions following the utilization of such losses would amount to approximately $15.0 million.

WORKING CAPITAL

During the year working capital increased by $37.7 million to $372.9 million. The current ratio now stands at 1.9 to 1, up from 1.8 to 1 at the end of 1971.

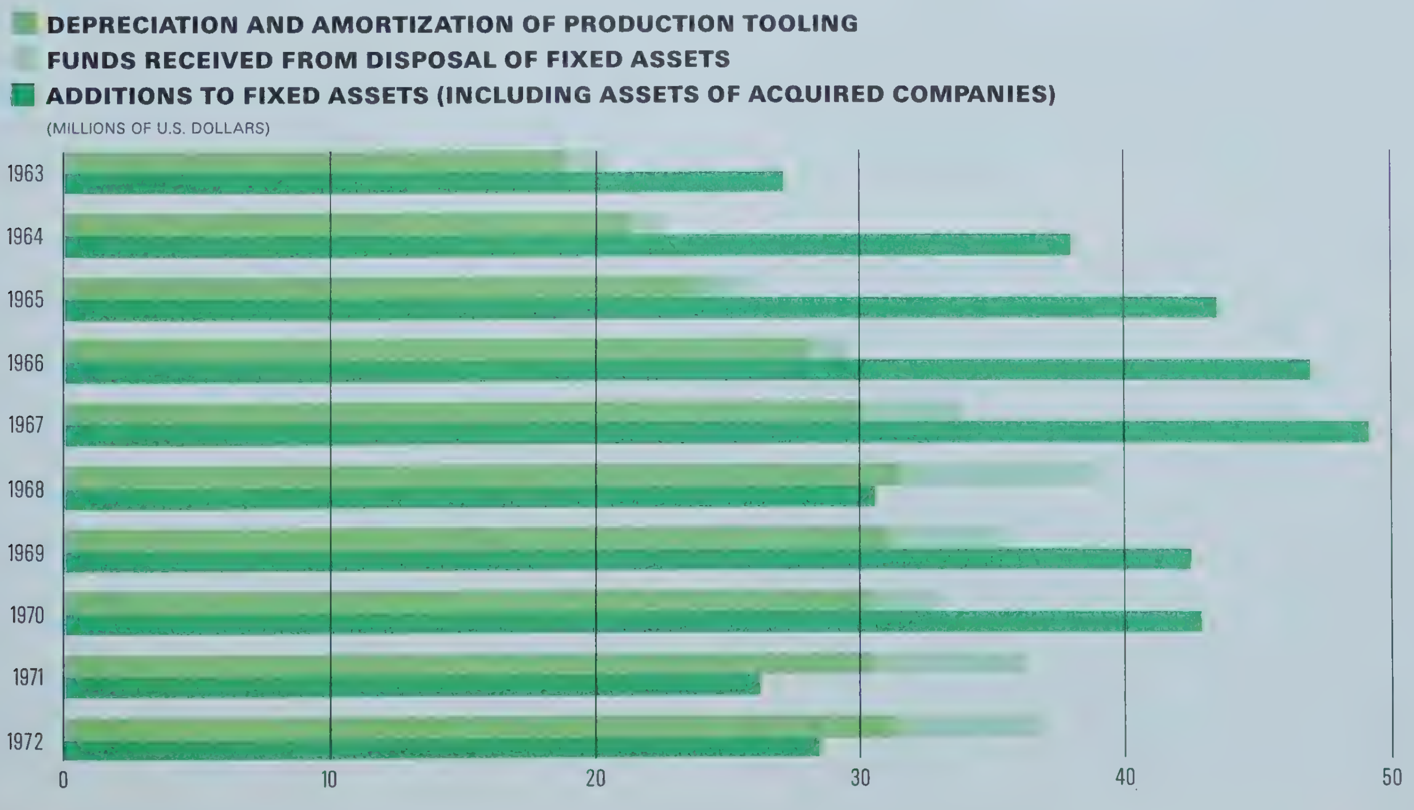
The net generation of funds from profits, depreciation, long-term debt issues, asset disposals and other factors was $95.9 million. These funds were applied to acquire fixed assets of $28.4 million and to retire $14.5 million of long-term debt. Investments in the form of Associate Companies and a mortgage were increased $11.7 million and minority shareholders' interest reduced by $3.6 million (see Minority Interest section of this Review). The remaining funds increased working capital by $37.7 million. Under working capital, receivables and inventories increased by $56.2 million to $730.7 million. This is 61.4% of the current year's sales compared to 65.5% at the end of 1971. Various payables increased by $35.0 million while cash on hand decreased by $23.2 million. The result of the foregoing was a $36.3 million reduction of bank and other short-term debt.

INVESTMENTS

The wholly owned finance companies are not consolidated but separate combined statements are provided. The investment in these companies is carried on the balance sheet at equity in their net assets and is commented upon in Note 1(a).

The company has ten Associate Companies where ownership varies from 18% to 49%. In 1971 and prior years these investments were carried at cost and dividends were reflected in Interest and Sundry Income as received.

In 1972, in accordance with recent trends in financial reporting, the company adopted the equity method of accounting for its investments in those five Associate Companies in which it has a significant influence over operating and financial policies. Whereas income was formerly recorded as received in the form of dividends, the company is now recording its share of the net income of these five Associate Companies in the Consolidated Statement of Income and increasing their carrying value on the Consolidated Balance Sheet by a similar amount, less dividends received.



The 1971 income statement has been restated to reallocate dividends received from Interest and Sundry Income to Equity in Net Income of Associate Companies. Had 1972 continued on the former basis the corresponding income would have been approximately $0.5 million. Since the cumulative effect of equity accounting to October 31, 1971 was less than 50 thousand dollars, it was not considered material and prior years' figures have not been restated to an equity basis. The remaining five companies continue to be carried as an investment at cost in the amount of $2.0 million.

In addition to this equity pick-up during 1972, there was an investment of $0.2 million in Beltrami S.p.A., an Italian manufacturer of industrial equipment and long a supplier to Massey-Ferguson; $0.8 million reinvestment of fees in Motor Iberica S.A. in Spain; and $0.2 million further investment in Perkins Argentina. A $2.0 million advance was made to one Associate Company. These factors account for the increase of $4.2 million in Associate Companies during 1972.

Sale of surplus property near Toronto resulted in an extraordinary profit of $8.3 million, after deducting all related costs. A first mortgage bearing a commercial rate of interest was acquired with instalments commencing February 1974 and extending to no later than August 1979.

STATISTICAL SUMMARY *(All Dollars in Millions U.S. Except Per Share Statistics)*

	BUSINESS ACTIVITY				OPERATING SUMMARY				
					Manufacturing Companies				
Year	Number of Employees at Year End	Total Assets	Net Sales	Asset Turnover Ratio	Gross Profit	Gross Margin	Profit (Loss) Before Tax	Margin	Income Taxes
1963	41,700	$ 526.1	$ 634.3	1.21	$143.1	22.6%	$36.2	5.7%	$15.4
1964	44,072	582.7	714.1	1.23	168.4	23.6	53.6	7.5	13.3
1965	46,324	693.8	747.9	1.08	164.5	22.0	39.7	5.3	4.9
1966	45,907	786.8	862.2	1.10	194.2	22.5	52.8	6.1	14.2
1967	44,204	863.8	844.8	0.98	183.1	21.7	32.5	3.8	9.9
1968	46,049	874.4	848.0	0.97	195.7	23.1	35.4	4.2	12.2
1969	50,429	1,013.9	969.4	0.96	219.8	22.7	39.3	4.1	12.1
1970	47,386	1,011.7	937.9	0.93	186.1	19.8	(22.4)	(2.4)	1.3
1971	43,349	1,011.0	1,029.3	1.02	214.7	20.9	9.7	0.9	5.7
1972	**45,888**	**1,057.3**	**1,190.0**	**1.13**	**257.5**	**21.6**	**42.5**	**3.6**	**15.8**

	LIQUIDITY		CHANGES IN FIXED ASSETS				SOURCE OF ASSETS		
							Liabilities		
Year	Net Current Assets	Current Ratio	Depreciation of Buildings and Equipment	Amortization of Tooling	Total Depreciation and Amortization	Additions	Current	Other	Shareholders Equity
1963	$231.6	2.6	$14.3	$4.5	$18.8	$27.1	28.8%	26.0%	45.2%
1964	245.2	2.4	15.7	5.6	21.3	38.0	29.6	23.7	46.7
1965	254.2	2.0	17.1	6.9	24.0	43.5	36.7	19.7	43.6
1966	337.6	2.4	18.9	9.1	28.0	47.0	30.8	18.5	50.7
1967	327.2	2.1	21.3	8.8	30.1	49.2	34.0	18.8	47.2
1968	331.5	2.1	23.5	8.0	31.5	30.6	34.5	17.8	47.7
1969	330.4	1.8	23.7	7.4	31.1	38.4	42.2	15.2	42.6
1970	291.3	1.7	23.1	7.4	30.5	42.9	43.7	17.3	39.0
1971	335.2	1.8	22.8	7.7	30.5	27.0	39.8	20.3	39.9
1972	**372.9**	**1.9**	**23.1**	**8.4**	**31.5**	**28.4**	**37.9**	**20.1**	**42.0**

(The above figures for 1963 to 1968 were originally reported in Canadian dollars and have been converted to U.S. dollars for comparative purposes. These figures and the trends indicated are considered to be accurate but the translation has not been subjected to external audit.)

CAPITAL EXPENDITURES

Capital expenditures during 1972 originally planned at $38.0 million, actually amounted to $28.4 million for the year, primarily because of delayed expenditures on several major projects plus a lower than anticipated exchange rate in the United Kingdom. The delayed spending is reflected in higher year-end commitments and will result in higher capital outlays in 1973. Apart from 1971, the 1972 outlays were the lowest in nine years and were below the depreciation and amortization provision of $31.5 million.

Expenditures in the United Kingdom accounted for the most significant portion of the total. In Coventry and Manchester, expenditures were primarily related to completing facility modifications and to tooling for the introduction of new models of tractors. In Knowsley, another expansion phase was undertaken to enable production of an increased range of industrial loaders. Expansion of facilities was also continued in Peterborough to accommodate machinery for cost-improvement programs and an expanding range of 4, 6 and 8-cylinder engines. In addition, increased facilities were started in 1972 for engine development and testing.

In Brazil, expansion of manufacturing facilities for tractors and Perkins engines to meet growing demands continued. Additional plant and equipment was also pro-

				SHAREHOLDERS' EQUITY		INCOME DISTRIBUTION			
Finance Companies and Assoc. Co's.	Income (Loss) before Extraordinary Item	Extra-ordinary Item	Net Income (Loss)	Total	Return on Equity	Dividends on Preferred Shares	Dividends on Common Shares	Income Retained	Year
$1.1	$21.9		$21.9	$237.8	9.2%	$1.3	$ 6.1	$14.5	1963
1.3	41.6		41.6	272.1	15.3	0.6	7.5	33.5	1964
2.1	36.9		36.9	302.5	12.2		12.5	24.4	1965
2.5	41.1		41.1	398.9	10.3		16.1	25.0	1966
2.9	25.5		25.5	407.7	6.3		16.7	8.8	1967
3.1	26.3		26.3	417.3	6.3		16.7	9.6	1968
3.0	30.2		30.2	431.5	7.0		16.9	13.3	1669
4.0	(19.7)		(19.7)	394.5	(5.0)		17.3	(37.0)	1970
5.2	9.3		9.3	403.7	2.3			9.3	1971
5.3	**32.0**	**$8.3**	**40.3**	**444.0**	**9.1**			**40.3**	**1972**

SHAREHOLDERS			PER COMMON SHARE					
	Shares Outstanding							
Number	Preferred	Common	Sales	Net Income (Loss)	Dividends	Income Retained	Equity	Year
40,363	254,748	13,495,948	$47.00	$1.53	$0.45	$1.08	$15.90	1963
33,799		14,820,038	48.18	2.77	0.51	2.26	18.36	1964
34,884		15,059,025	49.66	2.45	0.83	1.62	20.09	1965
40,186		18,129,314	47.56	2.27	0.89	1.38	22.00	1966
42,304		18,130,670	46.60	1.41	0.92	0.49	22.49	1967
43,527		18,130,670	46.77	1.45	0.92	0.53	23.02	1968
39,694		18,195,450	53.28	1.66	0.93	0.73	23.72	1969
45,744		18,195,450	51.55	(1.08)	0.95	(2.03)	21.68	1970
41,575		18,195,450	56.57	0.51		0.51	22.19	1971
38,260		**18,195,450**	**65.40**	***1.76**		**2.21**	**24.40**	**1972**

***1972 excludes extraordinary profit of $0.45 per share.**

vided to manufacture combines and construction equipment.

In North America, capital outlays were directed toward new product introductions which included an upgrade of the large tractor family, a heavy-duty forage harvester, an additional model of the new combine line, a re-styled range of snowmobiles and an improved line of garden tractors. Toronto and Brantford facilities continue to be modified and expanded to accommodate the increased volume of larger products. The office furniture division made significant capital expenditures to introduce a new line of products for the North American market.

In France, a new combine model was introduced and the transfer of combine production from Germany was completed to consolidate manufacture at Marquette. At the tractor plant in Beauvais, modifications to facilities and tooling associated with the new range of tractors were completed. In Germany, the manufacture of hydraulic cylinders for farm, industrial and construction machinery was started at the Eschwege plant. In Italy, production of axles to convert farm tractors to 4-wheel drive was begun in Fabbrico and in Aprilia construction machinery product improvements continued with related facility requirements.

The South African company acquired the Slattery group and its facilities and equipment for the production of corn harvesters. In Australia, increased manufacture of sugar cane harvesters required expansion of the plant in Bundaberg.

In both Europe and North America, company-owned retail outlets were acquired or opened to strengthen the distribution network and to participate in new markets.

The outlook for 1973 indicates significantly higher capital expenditures of about $65.0 million. This increase reflects the impact of delayed spending in 1972 on capacity expansion projects and continued emphasis on product development and product cost-reduction programs.

OTHER ASSETS AND DEFERRED CHARGES

Goodwill on the acquisition of subsidiaries and production start-up expenses are the two most important items in this account. These amounts, written off over ten and four years respectively, account for the major portion of the $0.8 million decrease during 1972. In addition, this account includes compulsory deposits, unamortized discounts related to debt issues, equipment temporarily recorded here pending installation by a new company and recoverable taxes as explained in Note 5.

LONG-TERM DEBT

During the year, the DM 20 million bank loan maturing 1978-80 borrowed by Massey-Ferguson Nederland N.V. was taken over by Massey-Ferguson GmbH, thereby consolidating the total amount of this loan (DM 40 million) within Massey-Ferguson GmbH. In the United Kingdom, Massey-Ferguson Holdings Limited arranged an increase of £4.3 million to its previous long-term bank loans, this increase maturing 1975-79.

As mentioned in last year's Report, the amount drawn upon the General Bank Standby Loan may vary. At October 31, 1972, the total amount available, $30.0 million, was in use compared with $20.0 million in 1971.

MINORITY INTEREST

Significant minority interests in terms of dollar value, are held in Massey-Ferguson Holdings (Australia) Limited and Massey-Ferguson (South Africa) Limited, accounting for $11.9 million of the total $12.3 million. In the case of the minority preferred shareholding in Australia, there is no further participation in profits once the preferred dividend is paid.

At the beginning of 1972, virtually all the minority interest of Motores Perkins S.A. (Brazil) was acquired. The minority shareholders' capital decreased by $3.2 million to $6.2 million, while their share of retained earnings decreased by $0.4 million primarily as a result of this purchase. At October 31, 1972 the minority shareholders have an interest in six subsidiaries with their shareholdings varying from less than 1% to almost 50%.

FINANCE COMPANIES

At $4.4 million the combined profit of the finance companies in Canada, the United States and the United Kingdom decreased $0.3 million compared with the profit of the previous year. This is the result of a slight reduction in the volume of receivables financed by the Export Finance Company, a re-negotiation of the terms of purchase of certain types of notes by the same company plus a lower average level of portfolio in the Canadian finance company. The combined profit of the finance companies less dividends paid is reflected in the change in carrying value shown on the Consolidated Balance Sheet.

Due to the increased activity in the United States, receivables at year end increased by $28.5 million. Early in the year, a 7¾% subordinated loan of Swiss Francs 20 million was arranged, maturing in 1977. The net increase in long-term debt amounted to $3.5 million, after exchange fluctuations and the re-funding of $2.0 million of subordinated debt which matured in 1972. In 1973, $2.6 million of long-term debt will mature.

sales statistics

(Millions of U.S. Dollars)

		1972		1971	1970	1969	1968	1967	1966	1965	1964	1963
		% of Total	Amount $	$	$	$	$	$	$	$	$	$
NET SALES BY TERRITORIES	**NORTH AMERICA**											
	CANADA	*6.5*	**77.8**	69.1	65.2	79.9	66.8	84.4	89.1	82.5	75.6	70.8
	UNITED STATES	*28.3*	**336.4**	293.6	247.8	285.9	256.6	263.1	268.5	208.4	174.2	154.0
	TOTAL	*34.8*	**414.2**	362.7	313.0	365.8	323.4	347.5	357.6	290.9	249.8	224.8
	EUROPE											
	UNITED KINGDOM	*10.8*	**128.9**	116.2	114.3	106.1	95.5	95.1	95.6	83.8	88.2	84.9
	FRANCE	*10.0*	**119.2**	95.6	88.5	110.7	93.1	89.0	95.3	85.9	85.3	74.2
	WEST GERMANY	*5.3*	**62.4**	56.4	57.8	47.5	35.6	28.8	43.1	42.7	43.6	34.8
	ITALY	*3.8*	**45.7**	39.4	41.8	37.3	30.9	28.6	25.4	22.4	19.1	18.1
	SCANDINAVIA	*3.6*	**42.3**	41.3	39.7	34.7	29.7	33.3	38.5	34.3	35.0	29.2
	BENELUX	*0.9*	**10.5**	9.3	11.6	8.4	7.6	6.7	10.3	8.2	7.4	5.4
	AUSTRIA	*0.7*	**8.3**	10.1	8.2	6.0	5.5	6.2	7.0	5.4	4.3	4.5
	SPAIN	*0.7*	**8.3**	4.3	8.1	9.0	4.1	5.3	4.4	3.3	3.7	4.7
	OTHER	*1.2*	**14.3**	13.9	14.0	11.5	10.5	8.7	9.6	8.5	9.1	5.8
	TOTAL	*37.0*	**439.9**	386.5	384.0	371.2	312.5	301.7	329.2	294.5	295.7	261.6
	LATIN AMERICA											
	BRAZIL	*10.2*	**121.5**	76.4	58.8	43.0	38.0	20.5	24.4	19.4	28.7	19.0
	ARGENTINA	*1.3*	**15.5**	10.1	9.6	3.8	2.2	2.9	1.6	2.1	2.7	1.5
	MEXICO	*1.0*	**11.5**	11.5	11.7	11.8	10.3	11.8	9.6	7.5	6.2	4.6
	OTHER	*1.3*	**15.9**	21.8	14.7	11.5	10.5	7.5	9.8	9.1	11.1	8.9
	TOTAL	*13.8*	**164.4**	119.8	94.8	70.1	61.0	42.7	45.4	38.1	48.7	34.0
	AFRICA											
	REP. OF SOUTH AFRICA	*3.6*	**43.6**	44.7	38.0	38.9	35.2	33.9	26.1	28.8	30.0	26.3
	OTHER	*2.9*	**34.0**	32.2	30.7	29.1	23.0	20.1	16.9	15.2	11.4	13.5
	TOTAL	*6.5*	**77.6**	76.9	68.7	68.0	58.2	54.0	43.0	44.0	41.4	39.8
	AUSTRALASIA	*4.2*	**50.5**	42.6	43.9	55.3	59.8	57.8	53.4	51.2	53.4	43.9
	ASIA											
	TURKEY	*1.4*	**16.2**	8.1	3.9	10.0	12.2	13.6	10.2	6.8	5.8	9.6
	JAPAN	*0.6*	**6.5**	7.4	5.4	4.3	3.3	3.2	2.5	1.6	1.6	1.6
	PAKISTAN	*0.2*	**2.8**	1.8	4.0	4.0	1.6	6.1	2.4	1.8	2.2	1.7
	INDIA	*0.2*	**2.5**	6.4	3.1	1.9	1.3	2.0	3.5	4.6	3.0	3.5
	OTHER	*1.3*	**15.4**	17.1	17.1	18.8	14.7	16.2	15.0	14.4	12.5	13.8
	TOTAL	*3.7*	**43.4**	40.8	33.5	39.0	33.1	41.1	33.6	29.2	25.1	30.2
	TOTAL	*100.0*	**1190.0**	1029.3	937.9	969.4	848.0	844.8	862.2	747.9	714.1	634.3
NET SALES BY QUARTERS—ENDED	JANUARY 31	*16.7*	**199.3**	197.6	172.8	158.8	153.3	150.2	166.0	128.4	134.5	102.1
	APRIL 30	*25.2*	**299.6**	256.4	249.7	248.2	224.3	248.4	244.0	178.6	201.9	175.2
	JULY 31	*27.6*	**328.5**	249.4	235.9	265.7	207.4	218.8	222.0	216.8	206.6	167.0
	OCTOBER 31	*30.5*	**362.6**	325.9	279.5	296.7	263.0	227.4	230.2	224.1	171.1	190.0
	TOTAL	*100.0*	**1190.0**	1029.3	937.9	969.4	848.0	844.8	862.2	747.9	714.1	634.3
NET SALES BY PRODUCTS	**FARM MACHINERY**											
	TRACTORS	*38.8*	**462.1**	396.0	331.0	339.6	317.8	335.6	359.9	294.1	293.5	275.8
	GRAIN HARVESTING	*12.6*	**149.5**	128.0	99.4	148.4	135.6	140.6	145.7	131.5	118.7	89.7
	HAY HARVESTING	*2.2*	**26.3**	29.3	26.1	30.1	26.2	27.2	32.1	32.4	32.0	31.4
	OTHER	*6.5*	**77.1**	69.4	62.2	66.5	64.1	68.5	63.6	61.4	55.1	48.9
	TOTAL	*60.1*	**715.0**	622.7	518.7	584.6	543.7	571.9	601.3	519.4	499.3	445.8
	INDUSTRIAL AND CONSTRUCTION MACHINERY	*12.4*	**147.0**	121.6	128.1	128.0	88.6	73.3	69.3	54.4	49.0	41.3
	ENGINES											
	GROSS SALES	—	**230.3**	194.2	203.2	182.9	150.9	143.2	147.7	136.0	137.7	117.9
	DEDUCT MF	—	**80.0**	59.1	57.8	55.8	48.2	49.3	56.2	48.2	50.8	42.7
	DEDUCT PARTS	—	**32.6**	28.1	23.8	22.2	18.1	15.4	15.3	13.3	9.2	8.9
	TOTAL (Net)	*9.9*	**117.7**	107.0	121.6	104.9	84.6	78.5	76.2	74.5	77.7	66.3
	PARTS											
	FARM MACHINERY	*9.9*	**117.3**	105.7	91.9	87.0	84.4	80.2	77.0	69.8	68.1	62.3
	ICM	*2.1*	**25.2**	16.6	16.4	14.5	9.5	7.0	6.7	6.1	5.9	5.3
	ENGINES	*2.7*	**32.6**	28.1	23.8	22.2	18.1	15.4	15.3	13.3	9.2	8.9
	TOTAL	*14.7*	**175.1**	150.4	132.1	123.7	112.0	102.6	99.0	89.2	83.2	76.5
	RECREATION PRODUCTS	*1.9*	**22.7**	18.4	26.5	18.1	10.7	8.2	6.4	1.8	—	—
	OTHER PRODUCTS	*1.0*	**12.5**	9.2	10.9	10.1	8.4	10.3	10.0	8.6	4.9	4.4
	TOTAL	*100.0*	**1190.0**	1029.3	937.9	969.4	848.0	844.8	862.2	747.9	714.1	634.3

Three new tractors, the MF 148, 168, and 188, were first displayed, along with the MF 1200 4-wheel-drive tractor introduced in 1972 and three old-timers, at the Royal Agricultural Show in the U.K. MF's first 4-wheel-drive tractor (centre), was introduced in 1930.

The MF 158, an intermediate, 56 horsepower general purpose tractor, was launched on European markets in 1972. It is made at Beauvais where the French company now turns out 11 different basic tractor models. MF began the production of tractors in France in 1951.

A new drill, the MF 30, incorporates a new seed and fertilizing system enabling it to operate at faster speeds and with better overall results for accuracy of seeding, fertilizer distribution and plant population counts than any other drill now available in the U.K.

Introduced in North America during the year was the MF 80, the largest integrated tractor-backhoe-loader in Massey-Ferguson's range. Powered by a 91 hp Perkins diesel engine, it has a backhoe digging depth of 18 feet and a loader capacity of 1¾ cubic yards.

The MF 44B wheel loader is a highly versatile and maneuverable machine with a bucket capacity of 2 cubic yards. Its articulated frame enables improved cycle time and reduced turning radius. Produced in North America, it will be offered in world markets in 1973.

The MF 750 is the second in the new series of larger capacity combines which was introduced in North America. It fits between the popular MF 510 and the giant MF 760 launched in 1971. Features include ease of servicing, operator comfort and high performance.

The new MF 20 cane planter, built in Australia along with the MF 201 and 102 cane harvesters, cuts cane into set lengths, dips the set in fungicide, plants it accurately and applies fertilizer. Straight rows and uniform crops are required for mechanized harvesting.

Another new product of the French company is the MF 507 combine. Developed for use on the medium to large size European farms, it is specially efficient in harvesting corn, a crop which is becoming increasingly popular in Great Britain and on the Continent.

Directors' affiliations

Albert A. Thornbrough
President and Chief Executive Officer
Director and Member Executive Committee—Canadian Imperial Bank of Commerce.
Director—Argus Corporation Limited.
Governor—University of Guelph.

John A. McDougald
Chairman, Executive Committee
Chairman of the Board and President—Argus Corporation Limited.
Chairman of the Board and Chairman of the Executive Committee—Dominion Stores Limited.
Chairman of the Executive Committee and Vice President—Hollinger Mines Limited.
Director and Member of the Executive Committee—Canadian Imperial Bank of Commerce.

The Marquess of Abergavenny
Director—Lloyds Bank Limited.
President—Royal Agricultural Society of England, 1967.
Deputy President—Royal Agricultural Society of England, 1972.
President—Royal Association of British Dairy Farmers, 1955 and 1963.

Henry Borden, Q.C.
Director—British Newfoundland Corporation Limited, Bell Canada, IBM Canada Ltd., Brascan Limited.
Past Chairman, Board of Governors—University of Toronto.
Past President—Royal Agricultural Winter Fair, Canada.

H. J. Carmichael
Director—Continental Can Co. of Canada Ltd., Argus Corporation Limited, Hayes Dana Ltd.

Lord Crathorne
Privy Councillor—United Kingdom.
Minister of Agriculture and Fisheries, 1951-54.
Past Vice President—Council of Europe.
President—NATO Parliamentarians Conference, 1963,
Yorkshire Agricultural Society, 1967.
Teeside Branch, Institute of Directors.
Honorary Member—Royal Agricultural Society of England.

Hon. Leslie M. Frost, C.C., Q.C.
Director—Lever Brothers Ltd., Corporate Investors Ltd., Corporate Investors Stock Fund Ltd.
Member of Privy Council
Chancellor—Trent University.
Hon. Vice President—Champlain Society.
Premier of Ontario, 1949-61.

Charles L. Gundy
Chairman—Wood Gundy Limited.
Director—Simpsons Limited, Simpsons-Sears Limited, Abitibi Paper Co. Ltd., Domtar Limited, Canada Cement Lafarge Ltd., Canadian Niagara Power Co. Ltd., Canron Limited, United Corporations Limited.
Hon. Chairman, Board of Trustees—Hospital for Sick Children, Toronto.
Member, Board of Trustees—Toronto School of Theology.

Gilbert W. Humphrey
Chairman—The Hanna Mining Company.
Chairman, Executive Committee—National Steel Corporation.
Director—General Electric Company, General Reinsurance Corporation, The National City Bank of Cleveland, Texaco Inc., Sun Life Assurance Company of Canada.

John D. Leitch
President—Upper Lakes Shipping Ltd.
Director—Dominion Foundries and Steel, Ltd., Canada Life Assurance Company, American Airlines Inc., Canadian Imperial Bank of Commerce.

A. Bruce Matthews
Chairman—Canada Permanent Mortgage Corporation, Canada Permanent Trust Company, The Excelsior Life Insurance Company.
Executive Vice President and Director—Argus Corporation Limited.
Director—Aetna Life & Casualty.

Maxwell C. G. Meighen
Chairman—Canadian General Investments Ltd.
Vice President—The Canada Trust Company.
Director—The Algoma Steel Corp., Ltd.
Vice President and Director—Argus Corporation Limited.

John E. Mitchell
Executive Vice President Americas—Massey-Ferguson Limited.
Director—Akron National Bank, Farm and Industrial Equipment Institute, National Association of Manufacturers.
Member—Greater Des Moines Committee.

Sir Montague Prichard
Executive Vice President Engines—Massey-Ferguson Limited.
President—MIRA (Motor Industry Research Association, United Kingdom).
Trustee—British Industry Roads Campaign.
Member of the Council—British Road Federation.
Chairman—National Marketing Council, United Kingdom, 1964-1971.

John G. Staiger
Senior Vice President—Massey-Ferguson Limited.
President and Director—Farm and Industrial Equipment Institute.
Member, Board of Trustees—Canadian Opera Company, Simpson College, Iowa Methodist Hospital,
Director—National Ballet Guild of Canada.

E. P. Taylor
President—The New Providence Development Company Limited.
Director—Argus Corporation Limited, The Royal Bank of Canada, RoyWest Banking Corporation Ltd., Trust Corporation of the Bahamas Ltd.
Chairman—The Royal Bank International Ltd.,

Colin W. Webster
Vice Chairman—Canadian Fuel Marketers Ltd.
Director—Sun Life Assurance Company of Canada, The Royal Bank of Canada, Dominion Textile Company Ltd.
Governor—McGill University.

The Duke of Wellington
Director—Motor Iberica S.A.
Colonel Commanding—The Household Cavalry, 1959-60.
Governor—Wellington College
County Councillor—Hampshire

factories—products manufactured

FARM MACHINERY AND INDUSTRIAL AND CONSTRUCTION MACHINERY GROUPS

ARGENTINA
ROSARIO (215,000 sq. ft.) — Agricultural Tractors.

AUSTRALIA
BUNDABERG (75,000 sq. ft.) — Sugar Cane Harvesters; Cane Planters; Toolbar Cultivators; Root Rakes; Rippers; Universal Rakes.
MELBOURNE (Sunshine) (1,544,000 sq. ft.) — Combines; Mowers; Drills; Hay Rakes; Tillers; Cultivators; Harrows; Plows; Spinner Broadcasters; Post-hole Diggers; Jib Cranes; Toolbar Planters; Earth Scoops; Multipurpose Blades; Cordwood Saws; Scarifiers; Subsoilers; Transporters; Rotary Cutters.

BRAZIL
CANOAS (200,000 sq. ft.) — Combines; Plows; Disc Harrows; Planters; Rotary Cutters; Blade Terracers; Cultivators; Trailers; Seed Drills; Lime Spreaders; Transporters; Jib Cranes; ICM Accessories.
SAO PAULO (258,000 sq. ft.) — Agricultural Wheel, Crawler and Industrial Tractors.

CANADA
BRANTFORD (North American Combine Plant) (807,000 sq. ft.) — Combines; Combine Cabs.
BRANTFORD ("M" Foundry) (222,000 sq. ft.) — Castings.
BRANTFORD (Verity Plant) (523,000 sq. ft.) — Plows; Harrows; Subsoilers; Mowers; Side Delivery Rakes; Tillers; Cultivators; Planters; Components.
MONTREAL (115,000 sq. ft.) — Wood Office Furniture.
TORONTO (2,021,000 sq. ft.) — Balers; Pick-ups; Grain Boxes; Grain Drills; Manure Spreaders; Forage Harvesters; Tractor Cabs; Components.
WATERLOO (286,000 sq. ft.) — Steel Office Furniture.

FRANCE
BEAUVAIS (663,000 sq. ft.) — Agricultural Tractors.
MARQUETTE (964,000 sq. ft.) — Combines; Balers; Castings; Tractor Components.

GERMANY
ESCHWEGE (587,000 sq. ft.) — Roller Chain; Gearboxes; Gears; Hydraulic Cylinders; Combine Axles; Table Parts; Cast Iron and other Components.

ITALY
APRILIA (600,000 sq. ft.) — Wheel Loaders; Crawler Tractors; Hydraulic Excavators.
COMO (115,000 sq. ft.) — Diesel Engines; Tractor Components.
FABBRICO (380,000 sq. ft.) — Agricultural Wheel and Crawler Tractors.

MALAWI
BLANTYRE (12,000 sq. ft.) — Hoes; Animal Draft Equipment.

RHODESIA
BULAWAYO (56,000 sq. ft.) Animal Draft Implements; Hoes; Groundnut Shellers.

SOUTH AFRICA
POTGIETERSRUS (202,000 sq. ft.) — Maize Harvesters; Maize and Bean Threshers; Peanut Pickers and Shellers; Trailers; Fodder Wagons; Plows; Disc Harrows; Earth Scoops; Subsoilers; Rippers; Hammermills; Fertilizer Spreaders; Wheat Planters.
VEREENIGING (440,000 sq. ft.) — Tractor Accessories; Plows; Harrows; Cultivators; Tillers; Maize, Cotton and Peanut Planters; Toolbars; Earth Scoops; Subsoilers; Multipurpose Blades; Combination Cutter Hammermills; Rotary Cutters; Hay Rakes; Graders; Grain and Fertilizer Boxes; Bulldozer Attachments; Buckets; Loaders; Animal Draft Implements; Loaders; Dumpers.

UNITED KINGDOM

BAGINTON (359,000 sq. ft.) — Tractor components.

COVENTRY (1,541,000 sq. ft.) Agricultural and Industrial Tractors; Axles; Gearboxes; other Components.

KILMARNOCK (763,000 sq. ft.) — Combines; Mowers; Tractor Accessories.

KNOWSLEY (250,000 sq. ft.) — Industrial and Construction Machinery.

MANCHESTER (511,000 sq. ft.) — Agricultural Tractors; Drills; Fertilizer Attachments; Tractor-loaders; Tractor-backhoe-loaders; Tractor Components.

UNITED STATES

AKRON (460,000 sq. ft.) — 2- and 4-Wheel-Drive Loaders; Crawler Dozers and Loaders; Landscaping Equipment; Forestry Crawlers; Skidders.

DES MOINES (570,000 sq. ft.) — Corn Heads; Dump Carts; Riding Mowers; Lawn and Garden Tractors; Snowmobiles.

DETROIT (North American Tractor Plant) (550,000 sq. ft.) — Agricultural and Industrial Tractors; Forklift, Loader and Backhoe Assembly.

DETROIT (Transmission and Axle Plant) (314,000 sq. ft.)—Transmissions and Axles; Hydraulic Pumps, Power Steering Units; Components.

KAUKAUNA (82,000 sq. ft.) — Badger Barn Cleaners; Silo Unloaders; Forage Wagons; Manure Spreaders; Forage Blowers; Silage Distributors.

NEENAH (60,000 sq. ft.) — Tube and Bunk Auger Feeders; Chain Conveyors.

ENGINES GROUP

AUSTRALIA, Dandenong (16,000 sq. ft.)—Assembly of Industrial Diesel Engines; Engine reconditioning.

BRAZIL, Sao Paulo (155,000 sq. ft.) — Diesel Engines.

UNITED KINGDOM, Fletton (136,000 sq. ft.)—Diesel Engines; Peterborough (Eastfield) (1,592,000 sq. ft.)—Diesel and Gasoline Engines; Peterborough (Queen St.) (106,000 sq. ft.) — Engine reconditioning; Peterborough (Walton) (170,000 sq. ft.) — Gears and Engine Components.

ASSOCIATE COMPANIES

ARGENTINA: Perkins Argentina S.A.I.C., Cordoba (161,000 sq. ft.) — Diesel Engines.

GERMANY: Eicher GmbH, Forstern (237,000 sq. ft.) — Tractors and Implements.

INDIA: Tractors and Farm Equipment Limited, Madras (186,000 sq. ft.) — Tractors and Implements.

ITALY: Simmel S.p.A., Castelfranco Veneto (380,000 sq. ft.) — Components for Crawler Tractors; Beltrami S.p.A., Ravenna (110,000 sq. ft.) — Components for Construction Machinery.

MEXICO: Massey-Ferguson de Mexico S.A., Queretaro (145,000 sq. ft.) — Tractors; Naucalpan de Juarez (43,000 sq. ft.) — Tool Carriers and Attachments; Cultivators; Blades; Disc Plows; Harrows; Motores Perkins S.A., Toluca (78,000 sq. ft.) — Diesel Engines.

MOROCCO: COMAGI, Casablanca (10,000 sq. ft.) — Tractors.

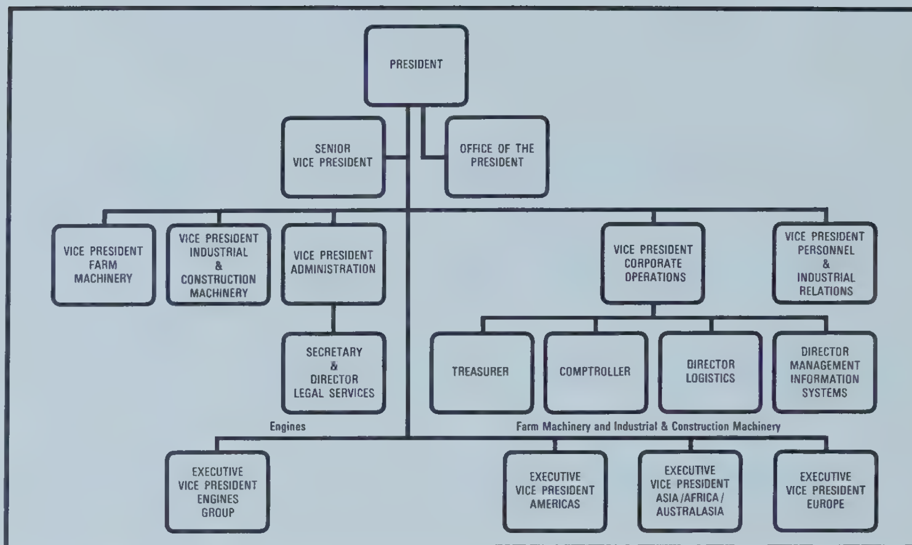
SPAIN: Motor Iberica S.A., Avila (251,000 sq. ft.) — Vans. Barcelona Main Factory (322,000 sq. ft.) — Tractors.

Barcelona Free Port Zone (416,000 sq. ft.) — Trucks. Moncada Y Reixach (248,000 sq. ft.) — Sheet-metal Components. Madrid (150,000 sq. ft.) — Diesel Engines. Noain (107,000 sq. ft.) — Combines; Farm Machinery. Ejea (71,000 sq. ft.) — Implements.

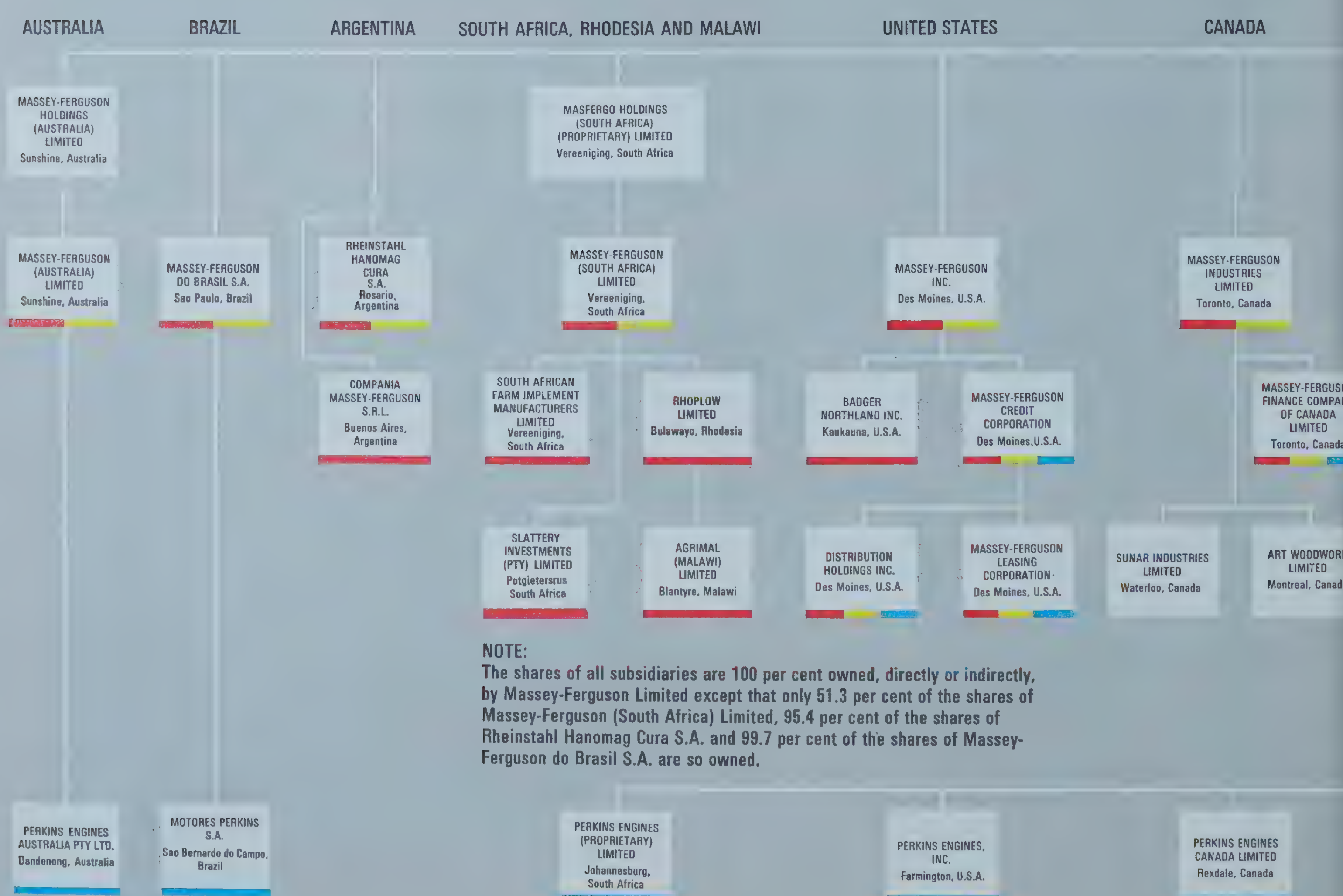
the new management structure

A further development in the world-wide management organization of Massey-Ferguson was announced in December. The new structure is shown in the chart.

Massey-Ferguson's established principles of organization have guided the evolution of its management structure since 1959 and continue to apply to the new organization. Those principles are (1) decentralized marketing and manufacturing operations and (2) general supervision by Corporate headquarters of policies and strategies, including product strategies;



THE MASSEY-FERGUSON GROUP OF COMPANIES



NOTE:
The shares of all subsidiaries are 100 per cent owned, directly or indirectly, by Massey-Ferguson Limited except that only 51.3 per cent of the shares of Massey-Ferguson (South Africa) Limited, 95.4 per cent of the shares of Rheinstahl Hanomag Cura S.A. and 99.7 per cent of the shares of Massey-Ferguson do Brasil S.A. are so owned.

treasury management; facilities location; flow of trade planning; planning and control processes; organization structure; and senior executive personnel administration.

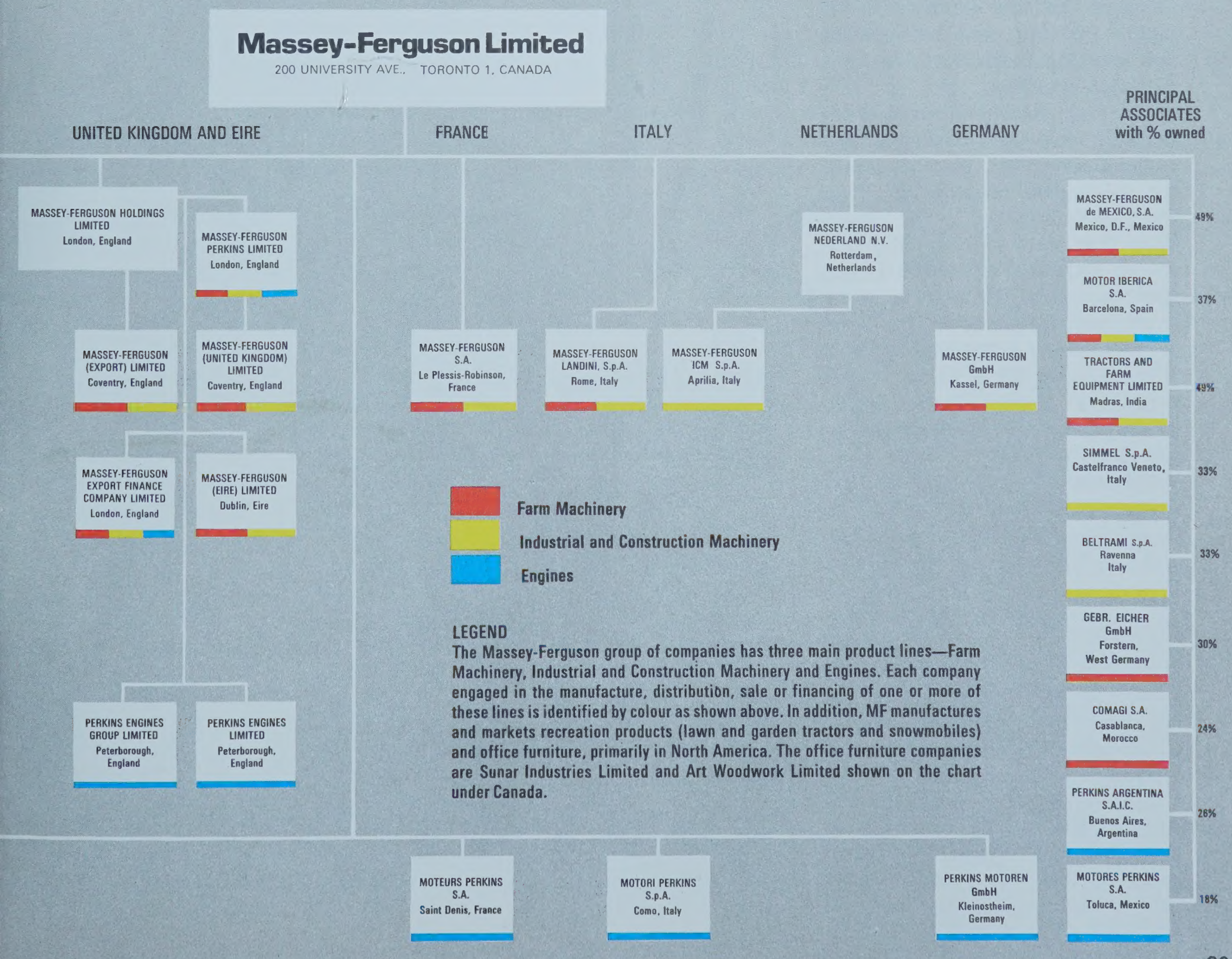
In the last few years, however, the environment in which these principles have been applied has changed significantly. For example:

- political and economic groupings of countries—such as the European Economic Community and the Andean Group—increasingly affect operational decisions;
- continuing intensive competition, and the impact of social and environmental legislation and standards are making increasing demands on the way in which new products are developed;
- business opportunities in developing countries and Eastern Bloc countries—major growth markets for Massey-Ferguson—now require new approaches.

The new organization structure has been designed to respond to the opportunities created by this changing environment. It also strengthens the management of Massey-Ferguson by establishing positions of broader scope reporting to the President within a simplified management structure.

The Regions. Farm machinery and industrial and construction machinery operations are grouped into three geographic regions: the Americas, Asia/Africa/Australasia, and Europe, each headed by an Executive Vice President. This rearrangement, while maintaining Massey-Ferguson's strong local national identities within each region, provides the opportunity for increased marketing effectiveness and improved productivity and utilization of company resources.

Europe comprises manufacturing in the United Kingdom, France and Germany and marketing throughout Europe. Operations in Italy will be



LEGEND

The Massey-Ferguson group of companies has three main product lines—Farm Machinery, Industrial and Construction Machinery and Engines. Each company engaged in the manufacture, distribution, sale or financing of one or more of these lines is identified by colour as shown above. In addition, MF manufactures and markets recreation products (lawn and garden tractors and snowmobiles) and office furniture, primarily in North America. The office furniture companies are Sunar Industries Limited and Art Woodwork Limited shown on the chart under Canada.

added at a later date. This continuing evolution towards European integration puts Massey-Ferguson in a position to obtain maximum advantage from economies of scale and logistical flexibility within an enlarged European Economic Community.

The Americas comprises manufacturing in Canada, the United States, Argentina, Brazil, Mexico and marketing throughout the Americas. Within this region, separate organizational focus on Canada and the United States will be provided to accelerate current momentum in these key markets. With regard to Latin America, the Executive Vice President Americas will be able to ensure the development of integrated strategies that take into account the rapidly evolving trade relationships and sourcing patterns of the Latin American countries.

Asia / Africa / Australasia covers all activities in Asia, Africa, Australasia and in the Eastern Bloc countries. It is in the developing countries of these three continents and in the Eastern Bloc that much of the long-term market expansion of Massey-Ferguson may come. The existing strong export distribution network will be maintained and fostered. In addition, a major opportunity exists in this region to develop new trading approaches (e.g., complementation agreements, non-investment plant establishment, and minority-share marketing ventures) which suit the varied economic and political character of the many countries involved. The region includes the Operations Units in Australia and South Africa; marketing operations throughout Asia and the rest of Africa, and the Special Operations Division. The latter negotiates licencee arrangements for the local manufacture of Massey-Ferguson products. Asia / Africa / Australasia will also provide supervision of Massey-Ferguson's interests in Associate Companies in Asia and Africa and for the development of new market opportunities such as Japan and the Eastern Bloc.

The Engines Group. The Engines Group will continue to extend its third-party business under the Perkins mark while remaining the major supplier of Massey-Ferguson's engine requirements. Its structure is not affected by the organizational changes.

Product Divisions. The product Vice Presidents for farm machinery and industrial and construction machinery will maintain control of their respective product lines world-wide. The regions will represent the needs of their particular markets and make strategic product proposals. However, the responsibility for specifying and developing the optimum product line lies with the product Vice Presidents. With central direction of product strategies, research and development and product integrity under these Vice Presidents, Massey-Ferguson will be able to maintain world-wide product leadership in today's demanding environment.

Corporate Operations. Certain corporate staff functions have closely inter-related roles with respect to operations. They are Comptroller; Treasury; Planning and Control Processes; Logistics; and Management Information Systems.

These will be grouped under the new position of Vice President Corporate Operations and will provide an integrated company-wide approach to treasury management, capacity planning and location of manufacturing facilities, flow of trade and systems and computer technology. Corporate Operations will adjust the planning and control processes to the new organization to provide for regional initiatives with over-all direction by the President.

Office of the President. Within the President's office—in addition to his Assistant—are executives concerned with activities that are the direct responsibility of the President, i.e., Director Public Relations, Director Organization Structures and Processes, and Co-ordinator Spain.

Senior Vice President, Vice President Personnel & Industrial Relations and Vice President Administration continue to report to the President. (The secretary, legal, investor relations and risk management functions remain the responsibility of the Vice President Administration.)

The new organization puts Massey-Ferguson in a position to compete with increasing effectiveness world-wide. It provides for strong local initiatives, for product leadership and for integrated management of all resources throughout the Massey-Ferguson group of companies.

FARM MACHINERY

INDUSTRIAL & CONSTRUCTION MACHINERY

ENGINES

LITHOGRAPHED IN CANADA
BY SAMPSON-MATTHEWS LTD.